- The jokers who run your public schools
- How to fix the budget
- Reforming congressional campaigns: Taking the money out and putting the fairness in

# The Washington Monthly

SEPTEMBER 1990/$3.00

## How the Cleavers Cashed in on the S&L Crisis

WHY THEY SHOULD PAY FOR IT

by James Bennet

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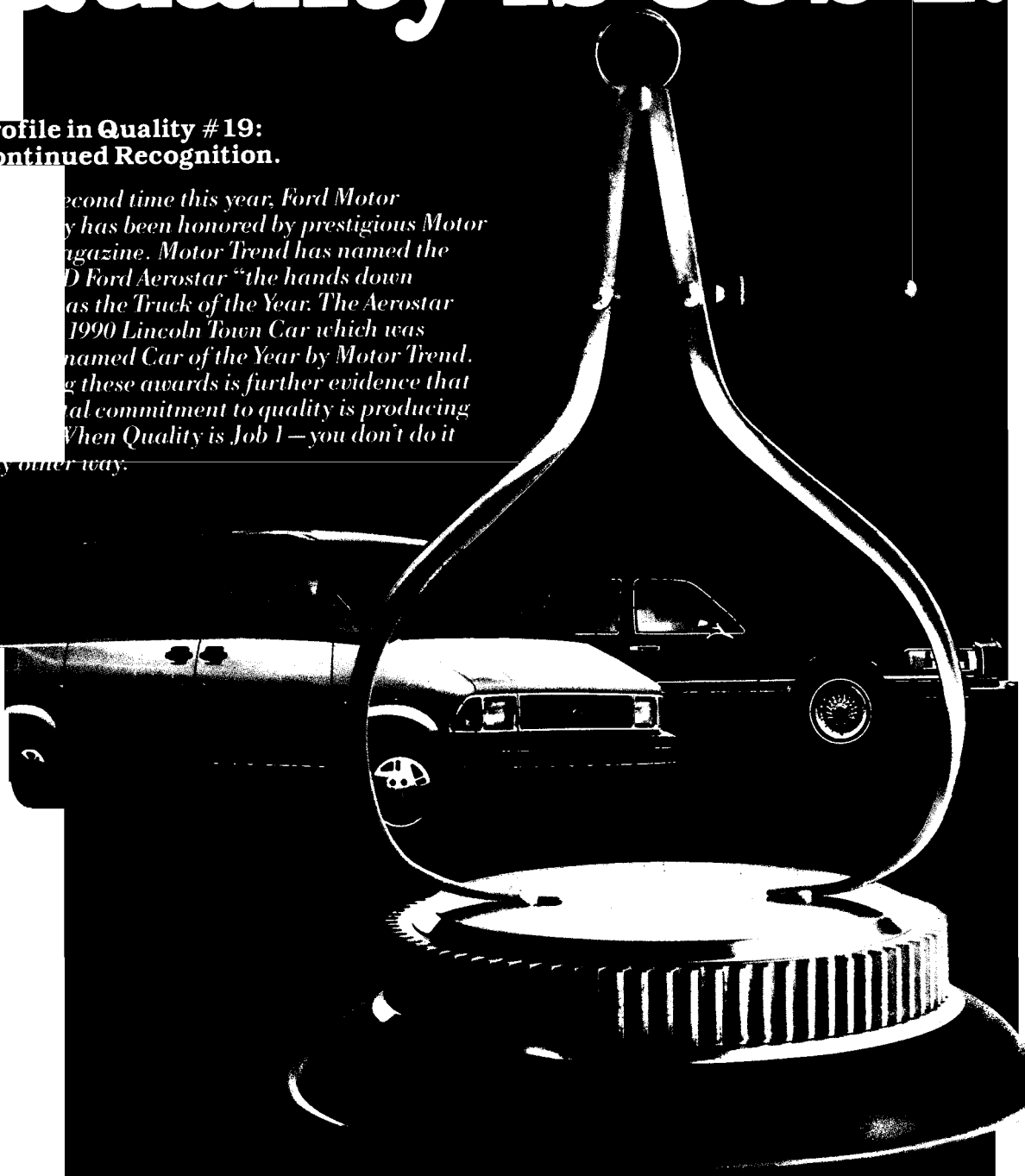

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Volume Twenty-Two, Number Eight September 1990

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# LETTERS

## Buffalo chips in

As I'm sure you know, the inclusion of Buffalo in your monthly feature "The Worst City Government" [Katherine Boo, April] created quite a stir in Buffalo when our local paper the *Buffalo News* ran a front-page story on your feature. Mayor Griffin held a press conference to respond to the story.

I am writing to extend an invitation to you to visit Buffalo so that we can show you our beautiful city and demonstrate that the people of the "City of Good Neighbors" can take being chided in a good-humored fashion.

There are many new and wonderful things happening in Buffalo that we would enjoy showing you. "Buffalo Place," our new pedestrian mall, is finished, and it has spurred many new developments along the Main Street corridor. Our Waterfront now sports several new marinas and restaurants and some of the most beautiful waterfront housing in the country. Also, Pilot Field, the home of the Buffalo Bisons, is an exciting new facility that we hope will someday house a major-league expansion franchise.

But these new developments are only a part of what Buffalo has to offer. We'd like to show you some of the community's longstanding assets as well. Assets like Kleinhans Music Hall and the Buffalo Philharmonic Orchestra, Shea's Theatre, the Albright-Knox Art Gallery, and the Buffalo Zoological Gardens. And of course, no visit to Buffalo would be complete without visiting several of our outstanding restaurants that serve a variety of traditional ethnic cuisines.

In closing, let me say that I read your article and that I understand that Buffalo was selected from reader nominations. Yet despite the serious administrative problems that existed in the parks department, Buffalo is a city whose residents are acutely aware, and intensely proud, of what their community has to offer. So please, come to Buffalo and discover not the "Worst City Government" but rather the "BEST KEPT SECRET IN THE EAST."

GEORGE K. ARTHUR
Buffalo, New York

*Mr. Arthur is the president of the Buffalo city council.*

## Money madness

You suggest that "excessive regard for money is Public Enemy Number One" ["Besieged and Beleaguered on $200,000 a Year," Charles Peters, June]. In that case, who is most guilty but our very own federal government? Is it any wonder that taxpayers distrust this ever-hungry gaping maw? In fact, given your perennial concern about how much taxes "the rich" are paying, I have to wonder where YOU stand on the "public enemies" list.

Why the distrust of government? First, maybe money is so important to citizens because our government doesn't care about much else. I put in a lot of volunteer hours. So what? I get politically involved and support candidates and causes I believe in. So what? I put in extra effort on the work I do that never gets billed. So what? The government's only real interest in my citizenship is the taxes I produce. So what do you expect my main interest in government to be?

Second, I am tired of hearing about soaking the rich. I may be comfortable, but I am not rich. Extra taxes *hurt!* "Rich" is a Rockefeller, or a Kennedy, or a Donald Trump. Higher taxes might reduce their investment capital, but won't really change their personal lifestyle. Alas, when you—and the federal government—talk of "taxing the rich," you hold up these kinds of folks as examples, but when it comes to actually defining the tax base, "rich" really means everyone who is not poor.

By the same token, "means tests" designed to exclude "the rich" also often limit benefits only to the poor. The net effect is that federal welfare policy divides citizens into two classes: the "sponges" who receive largesse but return nothing, and the "suckers" who pay for the largesse and receive nothing. Is it any wonder that the most popular federal programs are those in which *everyone* pays and *everyone* receives the benefits?

Until the federal government decides that we are *all* citizens, and *all* responsible for our government, and *all* entitled to equal treatment by that government, then "read my lips" politicians will continue to get my support.

JOEL S. DAVIS
Albuquerque, New Mexico

I'm a big admirer of yours, but dammit you really fumbled the ball in your reference to Social Security taxes. Over and over and over I keep seeing intelligent liberals commit the same egregious error, and I'm fed up.

Here're the pivotal sentences: "Suppose instead he marries her and takes a job flipping burgers at McDonald's and manages to make about $8,000 a year. Instead of giving him the medal he deserves, what do we do? We take $612 from his pay in social security taxes."

NO! NO! NO! We take *$1,224* away from his total pay! Any economist will tell you McDonald's would be allocating $8,612 toward that employee, because they must "match" the "employee's" tax contribution with an "employer's" tax contribution. The Social Security tax is set up purposely in this asinine way so that people will not realize the effective FICA tax rate is an astonishing 15 per-



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cent. Any economist will also tell you that if the government didn't gobble up the "employer's" contribution, that "extra" $612 would go to the employee (thus both "contributions" are really the *employee's*).

CHARLES A. MOLLE
Galesburg, Illinois

## First classlessness

I read "Let Them Eat Honey-Roasted Peanuts" [Michael Irwin and members of the World Bank, June] with great interest. I am left with one question: How many of the people outraged by Michael Irwin's suggestion that World Bank staffers would do better to fly in business and economy class fly first class when on personal travel? How many of these people find first-class travel so necessary when they pay for it themselves?

I have worked as both secretary and administrative assistant in Washington for the last several years and I have never worked for anyone who ever traveled first class. Somehow these downtrodden people managed to get their work productively accomplished.

LETA M. HALL
Rockville, Maryland

## Stand-up democracy

Nicholas Lemann, a writer I much admire, in an otherwise fine review ["Snob Rule," May], is a bit too harsh on H.L. Mencken's antidemocratic bias. It's not strictly true that Mencken (while preferring an aristocratic government) was opposed to democracy. Mencken defended democracy on the grounds it was the funniest form; American democracy provided Mencken with his greatest comic material. And it's laughter and burlesque that make democracy an improvement on other forms. Besides, democracy functions best when it embraces snobs who scorn it.

DICK IRISH
Marshall, Virginia

## Innocent abroad

I am disappointed with Charlie Peters's May "Tilting at Windmills" item on education allowances for children of diplomats and other civilian government employees stationed abroad. The only children who receive "away-from-home" educational allowances such as the $14,900 you quote are those who do not have adequate schools at their foreign posting. The Department of Defense school cost of $5,000 per pupil is relevant only in those few cases where a foreign service officer is posted near a U.S. overseas military base that has such a school. In these cases the U.S. government would pay that rate as the educational allowance.

To use a personal example, my son chose to go to a U.S. boarding school. Since I was subsequently assigned to Islamabad, Pakistan, where there is a fine English language international school, the U.S. government contributed $4,950, the tuition of the Islamabad school, towards my son's bill of $12,650. The rest was my expense, as it should be.

JOHN N. GUNNING
Islamabad, Pakistan

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# THEY SAY IT'S GOING TO FLY. OF COURSE, THEY AREN'T GOING.

*On February 20, 1962, the Atlas of Friendship 7 boosted the first American, John Glenn, into Earth orbit. His historic flight was the 117th for an Atlas.*

The machine had stainless steel skin. The men had steel nerves.

The men were the brave Americans who waited, strapped into a cramped capsule atop 125 tons of explosive fuel, to be blasted into orbit.

The machine was originally America's first intercontinental ballistic missile, developed by General Dynamics in the early 1950s, and for nearly 10 years the free world's major deterrent weapon.

The men were the Mercury astronauts.

The machine was our Atlas rocket.

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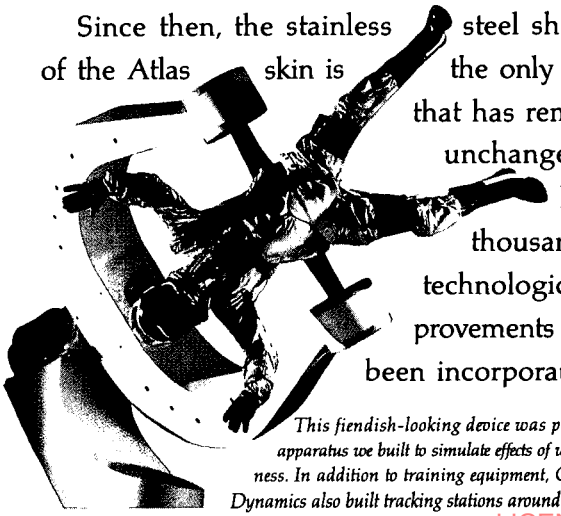
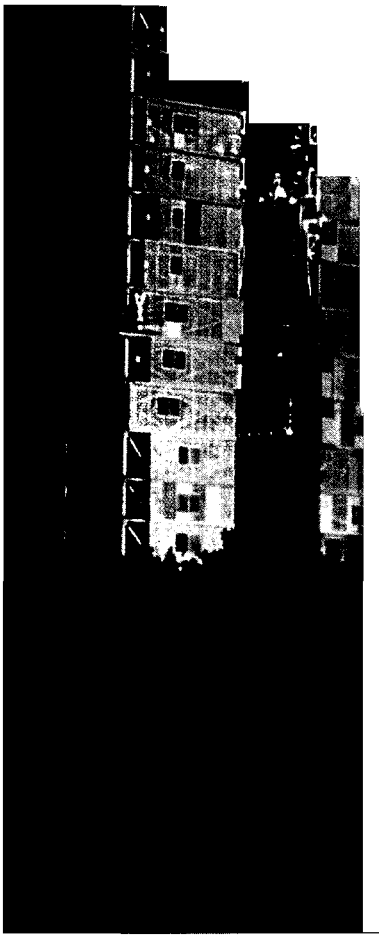
Since then, the stainless steel sheen of the Atlas skin is the only thing that has remained unchanged, as literally thousands of technological improvements have been incorporated.



*This fiendish-looking device was part of the apparatus we built to simulate effects of weightlessness. In addition to training equipment, General Dynamics also built tracking stations around the globe.*



Atlas has boosted virtually every U.S. weathe satellite. In December 1958, it boosted the world' first communications satellite, Project Score, which circled the globe broadcasting President Eisenhower's Christmas message. Atlas went on t launch 36 more communications satellites, anc dozens of scientific probes, including Pioneer, Mariner, and Surveyor, the first American spac craft to soft-land on the moon.

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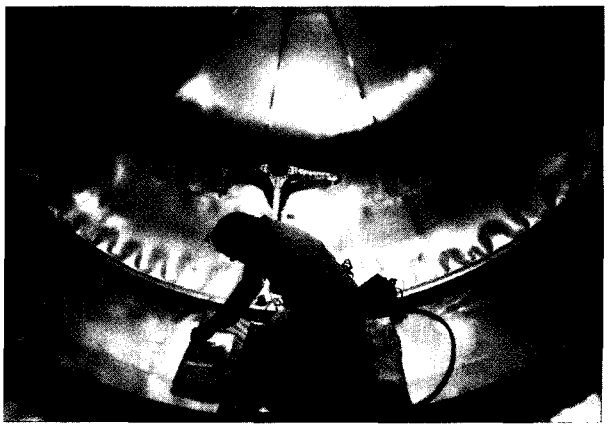

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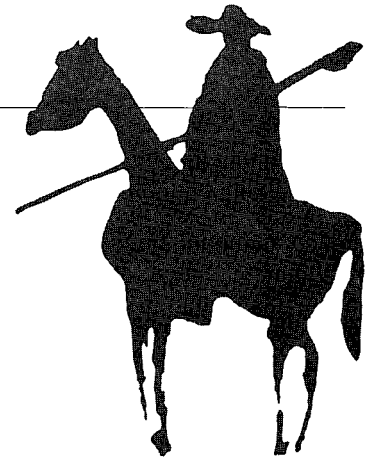
# TILTING AT WINDMILLS



If you haven't despaired about what's happening with the new generation, I have the news that is sure to shove you over the brink. It's the latest in summer fun for America's youth: National Law Camp. No longer the sound of ball against bat, songs around the fire, frolic in the pool. Instead, it's briefcases and torts, yellow pads and field trips to court houses, and the promise of "an invaluable chance to gain a competitive edge in the law school admissions process." Some of the kids are just 13 years old. . . .

I have long contended that a major reason the American people allowed the wealthy to get away with so much in the eighties is that the middle class, which during my boyhood in the thirties identified with its poor relatives back on the farm, came to identify with the rich. If you want proof of that fact, you need look no further than a recent poll on reducing federal deposit insurance from the current $100,000 per account. Fifty-seven percent of the people oppose the step. There is no chance that anywhere near 57 percent of the population has $100,000 in cash to put into a savings account. In fact, the average account is less than one-tenth of that amount. . . .

Recently I asked someone I know who had worked closely with George Bush if the president would have nominated David Souter without knowing his views on abortion. My friend answered yes, "abortion is not a big issue with Bush," adding "it wasn't with Reagan [with whom my friend had also worked] either." What troubles me is that both Bush and Reagan have repeatedly used rhetoric that could not help but inflame the anti-abortion right. I wonder how many feminist leaders are equally guilty on the other side, reinforcing the rigidity of their pro-choice sisters while obscuring their own doubts.

There is, as we at *The Washington Monthly* have tried to point out, a sensible and humane middle ground on the abortion issue, which leaders on each side seem afraid to acknowledge. Pro-lifers need to concede that women must have a legal right to choose abortion, while the pro-choicers should admit that there is a moral issue to be faced whenever abortion is considered. . . .

To illustrate the article I wrote in our June issue trying to explain why today's journalists are definitely not soak-the-rich crusaders, I wish I could have included a photograph that appeared in the August issue of *The Washingtonian*. It shows the home of Steve and Cokie Roberts, he of *U.S. News & World Report*, and she of National Public Radio. It resembles nothing so much as the antebellum Tara in "Gone with the Wind." It's worth $1.2 million. . . .

Speaking of how their own wealth is influencing the attitudes of Washington journalists, did you happen to catch Ted Koppel's interview with William Seidman on August 1? When Seidman proposed limiting deposit insurance to $100,000 per individual instead of $100,000 per account, the usually cool Koppel indignantly exploded:

"But what if I have $500,000 and you reduce the limit to $100,000? I'm on the tightrope and you've just shrunk the safety net below me!". . .

In the days following the Kuwait invasion, administration spokesmen were asked why we didn't hold prices down by selling oil from the Strategic Petroleum Reserve. The answer was that they didn't want to use the reserve to control prices. But why have they rushed military forces to Saudi Arabia if not, in part at least, to control oil prices?

Wouldn't it be better, not to risk lives to make the point, but instead to demonstrate—with economic weapons—that Iraq could not get the higher prices it sought through its takeover of Kuwait? By selling 600 thousand barrels a day from the reserve, the government would replace the



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supplies we used to get from Iraq and Kuwait. The reserve is now large enough for us to do this for three years, meaning we could sell much more on some days if that is necessary to hold prices at reasonable levels. And if that isn't enough, we could enact a gasoline rationing program that would not only control but could even collapse the market—because America still is by far the world's leading oil consumer.

That Bush didn't explore options such as these before using military force has to heighten the suspicion that the president really is a wimp who thinks displays of masculinity are more important than genuine strength.

Of the options Bush chose, the one that struck me as best was the world trade embargo, which his administration appears to have done an admirable job of organizing. The one that strikes me as worst is the introduction of U.S. ground forces into Saudi Arabia, which seems to ignore the lessons of Vietnam.

Now that the troops are there, I hope Bush will at least remember the lesson of the Korean War, in which an initially justified use of American ground forces to repel an aggressor was transformed into a long war by our invasion of North Korea. The problem is that once presidents begin to favor the military options, they tend to become captives of the generals. In Korea, this meant that what could have been a successful five-month operation, culminating in the restoration of the status quo, became instead a bloody three-year draw that cost thousands of lives and accomplished absolutely nothing after October 1950.

The one hope I cling to is that Iraq will not become another Vietnam or Korea because Saddam Hussein will realize that he has no China or Russia to keep replenishing the planes, tanks, and spare parts he would lose during a protracted war. . . .

A few years back, when legislative business was languishing because too many senators had gotten into the habit of taking Mondays and Fridays off, the leadership struck a deal under which, in return for working on Monday and Friday, the senators could get one week off each month. I'm sure you can already guess what has happened. The senators not only take the week off but have drifted back into the habit of taking Fridays and Mondays off as well. . . .

"JOIN THE NAVY AND GET A NOSE JOB" read a headline in the June 30 edition of one of my favorite papers, the *San Jose Mercury News*. It seems that navy doctors are providing free cosmetic surgery to navy personnel and their families. "From 1986 to 1989, navy doctors nationwide," revealed the story, "performed more than 1,800 breast augmentations, face lifts, nose jobs, liposuctions, and hair transplants." . . .

We've all heard those announcements at the beginning of a flight that smoking in the lavatory is forbidden and fooling around with the smoke detector is a federal crime. Well, what happens when some idiot is caught lighting up? The answer seems to be nothing at all.

On June 25, on an American Airlines flight from Dallas to Seattle, a passenger told Patty Young, a flight attendant, that a man had been smoking in the lavatory. Young confronted the passenger, who admitted his guilt. There appears to have been at least a possibility that he disarmed the smoke detector, because it had not gone off. When Young asked the captain to have airline security


# "STOP THEM DAMN PICTURES"

That's what "Boss" Tweed demanded when he saw the handwriting on the Hall (Tammany, that is). But the pictures didn't stop. "Boss" Tweed met his maker in the Ludlow Street Jail and Thomas Nast put bitingly eloquent political cartoons squarely and permanently in the middle of American political life. Tweed aside, we think Emerson had it right when he said, *"Caricatures are often the truest history of the times."*

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personnel meet the plane to investigate, he refused. When Young asked the agent at the gate to call security, the captain intervened, and an apology was made to the passenger, who was asked to fly American again. Young was suspended and returned to duty only on the condition, according to Jean Heller of the *St. Petersburg Times*, who uncovered this story, "that she would never again take independent action against a revenue customer found smoking illegally during a flight."

Smoking in airplane lavatories is extremely dangerous. It was barred *not* on the basis of fantasy fears but because smoldering cigarettes dropped into the receptacle for discarded paper towels have caused serious fires on airplanes.

So Young did the right thing and was punished for it. Will she be backed up by the spineless FAA? Of course not. . . .

The recent story of the death of a 15-year-old girl near Tokyo indicates that in the Japanese character there remain at least traces of the qualities the rest of the world was finding less than charming a half century ago. An angry teacher had crushed her head by slamming it against the gate when she was seconds late entering school. Whether the teacher knew he was going to kill the girl is not clear. What is clear is that physical violence in the form of corporal punishment of pupils is common in the Japanese school system. Seven junior high school teachers recently were suspended for having beaten two students and, according to Steven Weisman of *The New York Times*, "burying them up to their necks on a beach as the waves crashed in.". . .

And speaking of the spineless FAA, did you know that it believes what the airline industry tells it about safety? Instead of concentrating on firsthand inspection of aircraft, FAA inspectors prefer to sit in comfortable offices, perusing records. If an airline's files indicate that it is maintaining or replacing parts on schedule, "we have to assume the validity of those records," says a senior FAA official. The agency found out about Eastern's lies only because of tips from whistleblowers among the airline's employees. . . .

I love the idea of using the thousands of military officers who will not be needed in the post-Cold War military as teachers in the public schools. Many of them, especially those trained at West Point and Annapolis, have solid backgrounds in science and mathematics, which are just the subjects in which there is a desperate shortage of quality instruction in the public schools. . . .

What secret anxieties does your dentist contemplate in his dreams? A clue is provided by a recent direct mail campaign aimed at the dental profession. It begins:

> "Dear Colleague,
>
> He was worried, even afraid . . . what made him anxious—*even frightened*—was far more serious. Production was stuck: $281,997 last year, $286,813 the year before." . . .

The Italians call it *dietrologia*. It is the study of conspiracy theories, and it is highly relevant to race relations in America today.

Something has gone badly wrong between whites and blacks, and, in contrast to most of the history of the two groups, this time it is the blacks who are mostly at fault. A considerable number of them seem convinced that there is some kind of conspiracy of whites to use the legal system to persecute blacks. This conviction is so strong that it can disregard the strongest kind of direct evidence of crime—a tape of Mayor Marion Barry smoking crack and tapes of two confessions in the Central Park jogger case.

In Washington, this paranoia was exacerbated nightly during the month of July by the local television stations, which devoted countless segments to the charges by such statesmen as Minister Farrakhan, Bishop Stallings, and the Reverend Sharpton that Barry was the victim of a racist conspiracy—and almost no time to a rebuttal of those charges by other leaders.

Here was an example of how a weakness of conventional television journalism can play into the hands of rabble-rousers. The latter were so anxious to get their charges aired that they set up shop where the television cameras were stationed—right outside the courthouse. The fair and reasonable people weren't there holding press conferences, so their views weren't aired.

The result has been that a lot of black people have been getting almost as crazy in their attitudes towards whites as white Southerners used to be in their prejudice against blacks.

And just as the Southerners needed to be told they were dead wrong, the blacks who fall for the white conspiracy theory need to be told *they* are dead wrong.

When Marion Barry says that the federal government has a task force singling out black officials for undercover operations, we should say he is lying. When New York blacks blame not the attackers but the victim—why else do they shout the name of the Central Park jogger?—we should


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say they are crazy.

This doesn't mean there isn't white prejudice.

There are still rednecks in the North as well as the South who will physically threaten blacks as they did most recently in Baltimore. But they are the only ones who hate blacks enough to mount a conspiracy, and—this is crucial—they simply are not the same people who control the legal system.

There is still, of course, the old—mostly Republican—country club prejudice against blacks. The country clubbers aren't violent, and they don't conspire to put innocent blacks in jail. But they do keep blacks out of golf clubs, off tennis courts, out of swimming pools, and out of good jobs.

Finally, there is paternalistic condescension—mostly from liberal Democrats—that says blacks must be judged by a more indulgent standard, which is why *The Washington Post* endorsed the obviously inept and crooked Marion Barry three times.

The elitist liberals of *The Washington Post* are really not that different from country club Republicans. Neither really thinks blacks are as intelligent or as able as whites.

The rednecks, the country club Republicans, and the elitist liberals are the real enemies of black progress, and they will just be convinced they are right if large numbers of blacks continue to think the enemy is a phantom legal conspiracy. . . .

Do you remember when Philip Morris paid Deborah Norville for that speech in Hawaii? The company recently received a handsome return on its investment. An NBC special on advertising anchored by Norville devoted just 43 seconds to the targeting of cigarette and alcohol advertising at women and blacks, dismissing the subject with Norville's remark that "the debate will go on . . . but targeting is here to stay." . . .

Suppose you suspect hanky-panky in a government agency and want to let the authorities know? You've got a problem.

The Office of Government Ethics is not listed in the phone book. Furthermore, when you dial OGE's old line, no forwarding number is given.

A journalist who tried to call the Office of Management and Budget's hot line for reporting fraud and abuse did not get an answer until the phone had rung more than 20 times, and then he was told he had reached the White House locker room. . . .

Do you know how the Texas S&L crooks have escaped efforts to make them pay back the money they looted? They plowed their profits into expensive homes, costing as much as $12 million, according to William Seidman, because Texas law forbids taking homes to satisfy a legal judgment. . . .

I'm delighted to report that my campaign for Cheap Chic seems to be sweeping the country. Okay, that may be a slight overstatement, but I can tell you that in just the past couple of months the local city magazine, *The Washingtonian,* ran an article on "How to Get Good Stuff Cheap," and an article entitled "Skinflint Chic" appeared in the monthly magazine that goes to the millions of customers of the Fidelity mutual funds. Both publications have strong readerships among the affluent baby boomers, who have been the principal culprits in the prove-class-by-proving-taste-by-buying-expensive-products craze that made all the boomers think they had to get rich and took them in to such morally marginal professions as law and investment banking.

*Time* magazine ran a major feature in its July 23 issue called "Hunkering Down" and subtitled "After the glitzy '80s, cheaper and careful are back in style." Among the "outs" in a "What's Hot, What's Not" sidebar was Grey Poupon mustard, the advertising for which appealed to the absolute worst in Yuppiedom. But probably the happiest tidings of all are "dropping thousands at a Ralph Lauren boutique has suddenly become excessive with the end of the era of the borrowed life-style."

Even advertisers are aware of what's happening. An executive at Ammirati & Puris, which handles BMW and was one of the main exploiters of status anxieties, said recently: "A lot of the baby boomers in the 1980s were insecure consumers who used their buying binges as a way to define their identity. Now many no longer need these badges of belonging." I hope the executive is right. But I'm usually the wrongest when I'm eager to detect signs that one of my causes is becoming popular. Remember, I predicted the eighties would usher in a "New Idealism." . . .

—*Charles Peters*

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# The Jokers Who Run Our Schools

"The fundamental causes of poor academic performance are not to be found in the schools but rather in the institutions by which the schools have traditionally been governed," write John E. Chubb and Terry M. Moe, authors of the recently published Brookings Institution book, *Politics, Markets, and America's Schools*. "Efforts to improve schools are therefore doomed unless they eliminate or sharply curtail the influence of the institutions that cause the schools' problems in the first place."

Most tales from today's public schools make it clear that this is true. Like when a friend tells us about his experiences as a young teacher in the New York City school system. Just starting out, he was paid at a much lower rate than fully licensed teachers, had no benefits, and couldn't accumulate any seniority until he passed written and oral exams. "The period between the day I took the first exam and the day I received my license, which included weeks and weeks of trying to get the tests scheduled and a six month wait after the second one," he says, still astonished, "was 565 days. That's the standard time." A year and a half of waiting at lower wages without job security or health insurance because no one could be bothered to grade your exam! "The process never seemed designed to encourage people to teach."

Our friend—bright, energetic, and socially concerned—is no longer a public school teacher. Who knows what finally drove him out? Even he doesn't know for sure, but the bureaucracy—the stupid delays, the rigid notions—are never far from his thoughts on the subject.

In any sort of organization, too much bureaucracy causes trouble, but the need to streamline the public schools is especially urgent. An inefficient post office loses mail, an overstaffed auto plant makes lousy cars, but poorly administered school systems do far worse—they ruin kids' lives.

That's why it verges on criminal that, as a recent survey of the Chicago public school system revealed, 21 percent of the employees work in nonclassroom jobs. That's a paper-pusher-to-pupil-ratio 46 times greater than in the Chicago parochial schools.

That's why Washington, D.C.'s citizens should be outraged that there have been no layoffs or early retirements of public school bureaucrats a full year after a special committee of civic leaders called for cutting 400 administrative positions—this in a school system that lists such questionable positions as "attendance aide," "employee development specialist," and "position classification specialist." One that spends about $536 less per student on instruction than comparable urban systems.

That's why New Yorkers should be enraged that on a single day last year, investigators visiting 17 schools in a district in the southwest Bronx found that 80 computers—17 percent of those purchased for the schools—and 37 printers—26 percent of those purchased—were nowhere to be found. It was also discovered that the district had spent $17,000 a year so that 68 of its officials could have beepers. Of these, 40 ended up going to relatives and friends of district employees. In many of these cases the school was not paid for the devices. And the city's residents should be furious about the superintendent who spent $10,000 of special education funds to decorate her office.

America is just beginning to realize that you can't clean up messes like these with a little light housekeeping—you need to condemn the building and lay a new foundation. Much of what public school bureaucrats do nowadays isn't education; it's child abuse.

Each of the following dispatches from the front lines of American public education illustrates that point. The school administrators who spend their days churning out complicated memos that say nothing, who flock to Disney World at the taxpayers' expense to drink in the wisdom of George Steinbrenner, who place unnecessary and irrelevant burdens on teachers without helping them do their jobs, are all doing their part to doom America's children. These vignettes also make clear one of the essential reforms: cutting down and reorganizing the public school bureaucracy so that most of its energy goes into supporting, maintaining, and improving the subject knowledge and pedagogical skills of its teachers.

—*The Editors*



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*Saying, "It's simply too remote from the children it intends to serve," New York State Education Commissioner Thomas Sobol issued a proposal last year calling for the New York City school bureaucracy to be dismantled and replaced by autonomous school districts. Sobol said both the school board and the position of chancellor should be abolished. His proposal was endorsed by the chairman of the New York State Board of Regents. If you want to know why, read this:*

# Bottom Drawer Bureau

by Gene Mustain

110 Livingston Street, a dour gray building in downtown Brooklyn and headquarters of the New York City public school system, is a well-known symbol of bureaucratic nonsense and paralysis. In the face of steadily declining performance by its students, it grinds on as usual, perturbed but unmoved, spitting out paper, regulations—and high school graduates who cannot say how many quarters make $1.75.

"By far, 110 Livingston makes 1600 Pennsylvania look pretty good," says Robert F. Wagner Jr., who was the Board of Education president. Early in his tenure, when controversy arose over an erroneous charge that school health clinics were distributing condoms, he learned how difficult it is for even the board president to navigate the maze of units, offices, bureaus, and divisions that is 110 Livingston. It took Wagner dozens of phone calls and more than 10 days just to learn how many clinics the board operated among its nearly 1,000 schools.

Although 110's moribundity has been a fact of life—and a municipal joke—for years, it has become more urgent to do something to make the place work. The future is at stake. New York City, which already has a weak manufacturing base, cannot compete economically if it cannot supply competent workers. It cannot solve the problems of its ghettos if nearly half its ninth-grade students never graduate.

In many of his speeches, Richard Green, the late New York City Schools chancellor, used to say that if New York's public school system wasn't made to work, then the future of public education in all large cities was doomed—because New York is now confronting the problems those other school systems will face eventually. Alas, in Green's brief reign, little progress was made. Instead, the bureaucracy spent most of its energy on itself.

"The game plan over there was to protect the bureaucracy, not to serve the children," says Harvey Robins, who was deputy chancellor for finance at 110 Livingston before fleeing last year to a top job in the cabinet of New York's new mayor, David Dinkins.

Robins recalls attending meetings with representatives of other divisions who would cheerfully agree to deadlines for producing memos on issues under discussion, but who would then silently decide not to do what they'd agreed upon. "They had set the policy by inaction." Robins says.

## Hand job

If sometimes slow in producing memos, the 110 Livingston bureaucrats are infamous for the ones they finally do write, or the ones they merely distribute, as illustrated by one ridiculous example last year:

When the bureaucracy got around to giving its teachers AIDS-prevention material, it included for all 64,000 teachers copies of a memo from the health department on how to wash your hands. Though it's hard to gripe about concern over a deadly health crisis, the memo was surely a preposterous waste of the copy machine. In seven detailed steps, it described the lost art of "proper handwashing"—from removing one's bracelets and rings right down to discarding used paper towels in a "receptacle."

"Apply soap, lather well," step three advised.

As if New York schools didn't have real problems. With 950,000 students and 110,000 mostly union-protected employees, the system would be the eighth largest city in the nation, and its budget is nearly $7 billion—bigger than the total budgets of 15 states, more than the gross national product of many countries. The system serves 700,000 meals a day and provides transportation to 550,000 pupils. The average number of students absent each day—140,000—would make up the sixth largest public school system in the nation. There are 120,000 students in special education, kids with a variety of emotional and physical ills requiring many specialized programs.

Nearly 280,000 students come from public-assis-

*Gene Mustain is a reporter for the* New York Daily News.



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tance families and thousands more from single-parent homes or homes undermined by drugs and domestic violence. The system has little power to attack the causes of its students' problems, but must try to overcome the symptoms.

To complicate matters further, while the New York City Board of Education runs the high schools and many special education programs, 32 elected local boards, allegedly representing the full contentious range of the city's multi-ethnic, multicultural universe, run the elementary schools. The Board, however, still doles out the money, has overall authority for policy and curriculum, and must monitor the educational performance of the local boards.

The setup was a well-meaning compromise to a partially race-based uproar over decentralization more than two decades ago. "We created the best and worst worlds then," says Wagner. "We gave control to the communities, but created a centralized bureaucracy that has taken almost no responsibility for the welfare of kids."

"Information exists in an overabundance here at Central, an overlapping, disparate, unstructured mass of data that lacks a strategic approach to its productive utilization," according to an assistant to Richard Green, the chancellor who died of an asthma attack a year after taking over. "Overlapping powers and duplicate responsibilities, both among Central offices and between Central and [the schools], reduce efficiency and accountability," echoed another aide.

## Memo random talk

Upon taking office, schools chancellor Joseph Fernandez asked his top administrators to submit secret memoranda to him describing their most urgent problems and how they intended to respond to them. Especially considering that jobs were at stake, some responses were nonsensical if not comical illustrations of bureaucratese. More important, the memos revealed what little effect the bureaucrats actually have on students' lives.

The director of the Office of Corporate Affairs wrote that his unit was created to provide "a brokering, facilitating, and marketing focal point" for companies that wanted to help the board educate children. Some of the companies, he noted, preferred an inside program "broker" as opposed to an "external vehicle," so it would be necessary for him to pool resources to meet "major systematic needs." He added: "Internally, it would mean working with those units necessary to properly formulate the issues/areas for addressment."

The director of the Office of Professional Development and Leadership Training—the office that is supposed to help teachers become better teachers—wrote that her No. 1 issue was "Concretizing Mission." That meant, she explained, "capacity building of personnel resources and personal abilities of central board of education, districts and school [sic] to facilitate generating vehicles to assist schools in nurturing student achievement. . . ."

There were numerous other examples of gobbledeygook in the secret memos, written by people making $75,000 to $100,000 a year:

➤"Extant data systems contain an abundance of information which is underutilized due to deficit staff knowledge and abilities due to inaccessibility." Translation: We have a lot of information we can't understand or use.

➤"The management of information requires organizing and structuring data into conceptually clear and logical component ideas that can be transmitted in forms that are user-friendly." Translation: Keep it simple. That's something New York City's education administrators rarely do.

## A real Lulu

Out in the schools, where the city's future is on the line, most principals view the bureaucrats as adversaries rather than as partners—as bothersome, demanding in-laws who are all talk and no action. "They're immobilized," says Tobias Sumner, principal of a Bronx grade school, "they can't make things happen."

That's no surprise to anyone who's laid eyes on the department's organizational chart: It takes 82 pages to diagram the board's divisions, bureaus, offices, and units. The diagram shows no fewer than 17 offices engaged in monitoring various programs.

"The only thing the bureaucracy hasn't tried to solve by memo is cancer," says Jules Linden, principal of a Manhattan junior high school. "My rule of thumb is, when people can't see me because of paperwork demands, I dump [the paperwork]—and most of the time it's not missed."

"There was a big gap between what I did and its effect," admits Harriet Brown, who wrote reports and evaluated data for the high school evaluation unit of the Office of Research, Evaluation, and Assessment. She remembers going to schools to conduct surveys about programs, but having no place on her forms to put comments that mattered. "Someone would say, 'It's a really good program but it needs to start in an earlier grade.' I could not put that in my report because I was only there to gather statistics."

Felton Johnson, the former principal of a highly successful intermediate school located in what was at the time the nation's poorest congressional district, remembers once trying to find out whether exceptional eighth graders who had done work most high school



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students could not do could get a few high school credits for their labor, which would allow them to learn even more by enabling them to be placed in advanced courses in high school. The board's curriculum division sent him to the high school division, which sent him to the state education department, which sent him to the high school division, which sent him back home. "I went into the cave and fought the monster," he says, "but I couldn't get anywhere and I gave up."

Compulsive, unimaginative rule-following, a trait of large bureaucracies, is carried to extremes at 110 Livingston. Brown cites that as the main reason she finally resigned. Only the person assigned to the copying machine was allowed to copy her documents, and only the person in charge of supplies could go to the supply cabinet for her. When Joseph Viteritti, a former New York University professor brought in to shake things up, resigned from headquarters in similar frustration, the powers that be had a clear and immediate response: He would have to leave his personalized memo pads behind. "I guess," shrugs Viteritti, "they figured someone else would come along with my name."

110 Livingston's bureaucratic fever is infectious. Plenty of New York schools have caught it too. Last year, a Bronx elementary school principal, Larcelia Kebe, developed a new document for teachers to fill out: "Request Form for Permission to Come Behind the Counter in the Main Office."

Such nonsense underlines how difficult it will be for Joseph Fernandez—the ninth chancellor in the past 16 years—to restore New York City's schools. As things stand now, people who do well in the schools are rewarded with jobs "downtown," though they may be inexperienced managers. On the other hand, those who are incompetent are often banished downtown. And most of these people are protected by labor agreements that make it virtually impossible to fire them.

Recently, Fernandez has tried to make personnel decisions more meritorious and open—predictably, such measures have landed him in court battling school boards, superintendents, and principals. But he needs to go even further. New York's educational bureaucracy has sprawled so far out of control and strayed so far away from the system's real mission that Fernandez must dissolve offices and fire administrators. It's too hard and too late to try to figure out how to salvage the mess that exists now. Instead, we need to get rid of the monster, introduce clearly defined programs that serve essential student needs, and staff them with people who can make them work.

An unintentional reminder of the New York school system's lethargy hangs on the wall near Fernandez's office. It's a student's painting of "Adorable Lulu," a haughty cat. "Her function is to sit and be admired," the young artist wrote.

It's time to kick the cat. □

*Every school policy and plan, no matter who thinks it up, ultimately ends up in the hands of the local administrators. Superintendents control the district's purse strings and oversee its hiring and firing. In other words, they are the ground commanders in the war for better schools. Watching these people in action at their annual convention gives you a pretty good idea why we're still losing that war.*

# Not-So-Super Superintendents

by Susan Ohanian

The 121st convention of the American Association of School Administrators (AASA) in Orlando, Florida, had it all: appearances by Mickey Mouse and Shamu, racist jokes by one keynote speaker, and imitations of a cerebral palsy victim by another. For the 122nd convention, in San Francisco, the cast of characters changed slightly, but the message remained clear: If you want to get school administrators into the convention hall, you'd better have a sports figure. In 1989, George Steinbrenner; in 1990, Roger Staubach.

For card-carrying AASA members, the convention fee is $280, for nonmembers it's $380. Not that the prices mean much to the attendees—they're on the expense account all the way. To help justify that, the AASA calls the fee *tuition*.

When I phoned AASA headquarters for help in finding accommodations, a very pleasant person asked me if I wanted an inexpensive, moderate, or

*Susan Ohanian taught in the public schools for nearly 20 years and is currently writing a book about teaching. Research assistance provided by Mary Clayton Coleman.*


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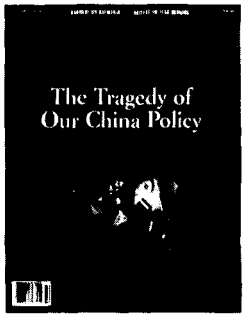
"Government agents befriended traders, visited their homes, and shared their meals. They attended their parties, played with their children, and won their trust. They deluded the defendants and then ensnared them in order to prosecute them for the moral equivalent of jaywalking."
—TRADER X, "SNARING THE CHICAGO 46"

"Every five years in Peru we have elections. We elect a dictator every five years. You've confused it with democracy, and so have we."
—HERNANDO DE SOTO, "WHAT'S WRONG WITH LATIN AMERICAN ECONOMIES"

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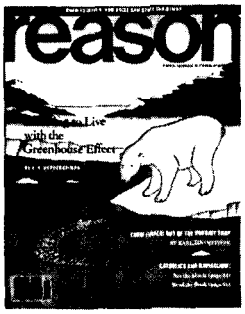


"For all the right-wing grousing about Washington and the majesty of the government 'closest to the people' (yeah, like right inside their wallets), state and local governments in America are notoriously shady enterprises, demonstrating the twin evils of local monopoly and a cozy-with-the-powers press."
—THOMAS W. HAZLETT, "LOCAL HEROES"

"When the law determines vice and virtue, everyone competes to determine the law. We end up with a struggle between those who can't tolerate the idea that anyone anywhere is having fun and those who can't tolerate the idea that anyone anywhere disapproves of their fun."
—VIRGINIA I. POSTREL, "SIN AND DECADENCE"

"Dr. Ehrlich was an entomologist by training, and some immediately recognized that after many years of rigorous study, he had lost the capacity to distinguish between an army of hideous little arthropods swarming over his desk in a Stanford laboratory and an upwardly mobile population of Homo sapiens building tract houses in Palo Alto."
—ANDREW FERGUSON, "APOCALYPSE WHENEVER"

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quality room. When I replied, "As cheap as possible," she sighed. "That's good. We're running out of the deluxe—$150 and up." When I expressed surprise, she let down her hair and said, "You should hear these guys. They phone up and say, 'I don't want to be stuck in some dump like the Radisson.'" Laughing, she said, "Who do they think they're kidding? Do you think they'd stay in a place as nice as the Radisson if it was coming out of their own pockets?"

For $70 you can get a one-day pass into the AASA exhibition hall, a stunning sight for a first-time visitor. When I walk into a room filled with buses and bleachers, I figure I'm in the wrong place and start to leave. Then I realize the buses are yellow, so I look around some more. I get so caught up in the stainless steel recessed handles for lockers (in 16 designer colors), circuit-training obstacle courses, and toilet paper dispensers promising 50 percent savings on tissue consumption, that it takes me quite a while to realize there are almost no books in the place.

Of the more than 250 exhibitors showing their wares, 53 are selling athletic equipment, bleachers, and gymnasium maintenance products; there are just three companies selling textbooks. Now that's not surprising, since superintendents don't choose schoolbooks—that's usually done by teacher committees—but one look around the exhibition hall makes it clear that basketball salesmen think superintendents care a lot about basketballs.

On the other hand, *Cliffs Notes* is here. Judging by the "Exhibitor's Directory," AASA must believe *Cliffs Notes* does it all. The company's products are mentioned under Books, Magazines & Periodicals, Curricular Materials, Reference Books, Teaching Aids & Materials, and Textbooks.

## License to sell

The AASA convention is a cheerful place. The 17,000-plus administrators gathered here seem to be having a whole lot of fun looking at synthetic turf, choral risers, pre-portioned school lunches, cast vinyl multipurpose sport flooring, wrestling-mat holders, and electronic scoreboards.

But does any of this explain why a teacher must obtain a special license to be an administrator? Are there graduate courses in trench drain specifications? Courses in how to choose an intercom system? Lab classes providing training on selecting basketballs, file cabinets, and venetian blinds? Has anybody ever questioned why a school district needs to send its leader to Florida one year and San Francisco the next to look at toilet paper dispensers?

Somebody has to choose this stuff, you say. But

## The Mindless Network

Why was the centerpiece of the Orlando convention a speech by George Steinbrenner, not a serious discussion of education? Because such conventions aren't about education. They're about making connections in the network of educational consultants who ultimately place most of America's school superintendents. And as the convention fare shows, it's a network of second-raters.

This national nexus developed because local school boards became convinced that they could not conduct searches for new superintendents by themselves. The Council of Great City Schools, an organization of the 40 largest school districts in the country, reports that 88 percent of its member districts who hired superintendents in the past three years relied on a search consultant. But according to Herb Kohl, a public school teacher for 30 years in both New York and California, search consultants play "a game having nothing to do with education, children, or pedagogy. It is a political game having to do with the preserving of jobs and the preserving of a few people's social and economic status."

It's also a game in which the schools are the big losers. Superintendents who take jobs mainly to puff up their resumes for the leap to the next rung on the consultants' ladder don't, as a rule, stay in them long enough to make any real difference. The average stint for a superintendent nowadays is just five years. Nor is it hard to understand why we now have so many superintendents who lard their districts with all sorts of unnecessary printed and audio-visual materials, often bought from the consultants who hired them in the first place, and so many who put school funds to personal use. Judging from these results, it's obvious the school boards' decision was wrong. They were better off when they did things the old way: hiring someone after watching his progress through the teaching and administrative ranks of their system for 10 or 20 years. Leaving things to consultants has meant poorer quality control. The only thing that the new network makes better is the consultants' bank statements: Superintendent searches bring in consulting fees of anywhere from $3,000 to $30,000.

*—Mary Clayton Coleman*



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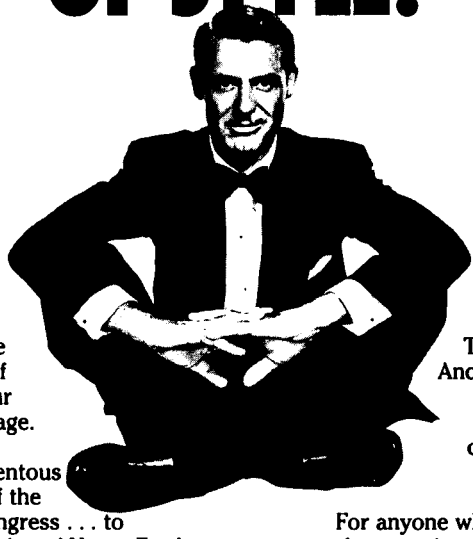

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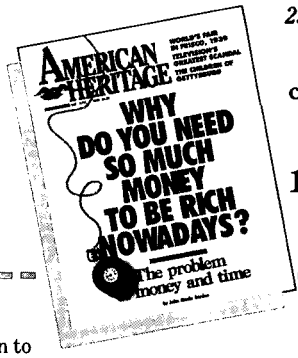


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should school districts be paying that somebody $80,000 a year—to select basketballs?

An examination of the "Job Bulletin" section of the AASA newspaper, *Leadership News*, raises certain questions about just what districts expect from their superintendents. The qualifications listed most often in job ads are "administrative experience" and "doctorate preferred." Despite superintendents' pivotal roles, I came across only one ad that asked for "thorough knowledge of curriculum/instruction, current research, and human growth development."

Scanning these listings reminded me of an interview I once had with a district superintendent for a job teaching remedial reading to inner-city seventh graders. The superintendent satisfied himself as to my qualifications by my affirmative reply to his question, "Would you be willing to teach colored kiddos?" Then he got down to important matters: deciding where I should be placed on the salary scale. It didn't faze him that my master's degree was in medieval literature or that I'd never had a course in how to teach reading.

As a longtime teacher, I am struck by how much higher the stakes are at AASA conventions than at the meetings designed for teachers. At the main annual meeting for reading teachers, educational consultant Lee Canter hawks his assertive discipline teacher guides for $7.95. But at the AASA convention, Canter's selling his video package, *Assertive Discipline for Bus Drivers*—for $349. There's also *The Caring Administrator Positive Resource Guide*, containing samples of such essentials as notices for teacher appreciation day, acknowledgement of a faculty member's marriage, and so forth. Price tag: $49.95.

The line between information and promotion, hazy enough in the AASA program of events, where many of the speakers billed as "Distinguished Lecturers" promote their commercial videos and training programs from the lectern, is completely obliterated in the exhibition hall, where many of the featured speakers set up booths, selling their services as consultants.

And it doesn't seem to hurt a superintendent's standing as an AASA featured speaker and consultant to have been run out of town. After failing to have any positive effect on the disastrous state of the Chicago system, Ruth Love was let go from her job as superintendent of schools there. But she is a staple on AASA programs. Her presentation at Orlando is definitely hard sell. After she acknowledges her introduction as a noted educational leader, Love says, "I can't be every place at once, so I have developed videos which are available to school districts." For those conventioneers unable to attend, Love's lecture is also available on tape cassettes. People who buy the tape get to hear an audio of Ruth Love's video.

Inside the exhibition hall, I'm pushed away from my examination of hardwood floors and U.S. Navy Recruiting Command booklets by people rushing from booth to booth exclaiming, "Got any stickers?" In general, they don't seem to care about the wares the booth's displaying. They just grab their stickers and rush on to the next booth with the same question, "Got any stickers?" I finally found out what was behind the sticker frenzy: Conventioneers who fill a certain card with stickers win the right to participate in a drawing for a free trip to the next convention—not of much direct use since the district pays the administrator's way, but of great use to spouses, who attend AASA conventions in large numbers. And just think—at that next convention, the lucky winner could fill another card with stickers. . . .

## Guns and rodents

But even so, the most popular booth here is not the one giving out the most stickers. It's not even the one giving away Coca-Cola. American Air Filter draws the biggest crowd every day with a carnival-style barker who demonstrates the old find-the-peanut-under-the-shell con game.

And yes, the National Rifle Association is here, too. Noting that "with the roles of society changing, educators have found it necessary to establish programs that satisfy the need for lifetime activities which provide enjoyment, relaxation, fulfillment, and meaning," the NRA proposes that schools should institute "shooting sports education programs." To this end, the NRA offers an across-the-curriculum guide for integrating shooting sports into the education process. "With a little imagination," states the guide, the teacher "can link some aspect of shooting with almost every subject taught in our nation's schools."

I wondered if it was only coincidental that the convention was held during National Frozen Food Month. Eating certainly is at the forefront of convention activities, with "food functions" sponsored by everyone from the American Desk Manufacturing Company to Control Data Corporation to the Kansas Association of School Administrators to the Women's Caucus.

But AASA conventions are not just display booths and food extravaganzas. There are also five days of speeches. I guess I wasn't really surprised to see the first general session kicked off by the Magic Kingdom's royal couple, Mickey and Minnie Mouse. This is, after all, Orlando. (There's an entertainment prelude to each general session; later we're treated to the Singing Superintendents joining their voices in "Climb Every Mountain.") After the rodent pair dances a jig and does a spiel hyping the educational benefits of Disney World, the AASA president delivers a message



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I hear repeated throughout my five days: "We've had too much criticism. We have the greatest public education system in the world." Applause. Applause.

Huge video screens dominate the front of the hall, so you can watch the real thing on stage or the larger-than-life video representations. The audience rises to sing "The Star Spangled Banner," to recite the Pledge of Allegiance, and to hear an invocation. The executive committee of the AASA is introduced. Each committee member and spouse walks on stage hand-in-hand, the woman of the pair carrying a bouquet of flowers. First-time convention attendees are asked to stand and are entreated to strive for the 25-year attendance pin.

## Play ball

And then comes the star attraction: introduced as a business man, a fierce competitor, a man who dearly loves our great country and supports our political system, a vice-president of the Olympic Committee, the 1977 baseball Executive of the Year, and "great lover of young people"—George Steinbrenner.

Steinbrenner tells his AASA audience that he recently advised officials at his alma mater, Williams College, "Honor the student like me—the C-, D+ student. Some day I will return here and give you a new chemistry building."

The owner of the New York Yankees goes on to brag about his fines for being a loudmouth—"more than all my players put together—$425,000." He says that when he bought the Yankees, they were such a sorry lot "the team picture looked like a poster for birth control." Such remarks play to a receptive house. When Steinbrenner delivers the tasteless, racist remark that "Sanchez was so lazy he thought manual labor was the president of his country," the crowd of educators roars its delight.

Then George Steinbrenner looks directly at this audience of several thousand and says, "I love teaching. Nothing is more important to me than education." America's school superintendents sop this up. They believe him, not noticing that later in his remarks he admits that he ranks breathing No. 1 and winning as No. 2. And the superintendents vigorously applaud his message of keeping our foreign aid at home instead of sending it to other nations, "some of whom burn our flags. Let's keep it here and take care of our young. There's something wrong about giving it to other nations."

The audience clearly loves this beefy despot who can stand there and brag, "I do it my way"—a man who has fired 16 managers. He was, after all, speaking to a group that knows how tough it is to get rid of just one troublesome teacher. People whose big decisions ordinarily focus on pre-portioned school lunches love listening to this paunchy peacock drop the names of his industrialist friends—the fellows who, he tells us, share his $120 lunches at Twenty-One.

"The most important people in this nation today are not politicians or industrialists," Steinbrenner then intones, "they are educators." Applause. Applause. When Steinbrenner adds, "You are the chosen few," they applaud again. They give him a standing ovation.

Immediately following Steinbrenner on the program is the announcement of the Superintendent of the Year. Although the master of ceremonies insists that "the suspense builds" to learn the name of the distinguished winner, hundreds of superintendents jam the aisles trying to get to the exit. Superintendents came to hear Steinbrenner the celebrity, not one of their own. And they don't care that a consultant named Zacharie J. Clemens is a featured speaker.

Clemens starts off his speech by saying "how downright awesome" it feels "to have the opportunity to address the CEOs of America's schools." Boy, do superintendents like being referred to as CEOs.

Clemens tells lots of ethnic jokes and speaks in various dialects to portray uplifting conversations he's had with everyone from superintendents to crippled children in hospital wards. He imitates the pronunciation of a person with a serious speech defect and of a child with severe cerebral palsy. He informs his audience that he knows a lot about difficult students—like Big Brenda, with her 44W bosoms, and another kid with "his fly down and his underpants in his back pocket." Using a high, squeaky, mincing tone, he quotes a first grader: "Sex education—first, you gotta avoid intersections, and second you gotta buy condominiums." Applause. Applause.

Afterwards, members of the AASA audience rush forward to tell Clemens how moved they were by his performance, especially that cerebral palsy kid.

The next general session speaker, Theodore Sizer, author of *Horace's Compromise* and chairman of the Coalition of Essential Schools, does not pack the celebrity draw of George Steinbrenner or attempt the pull-at-the-heartstrings of Zacharie Clemens. After all, Sizer really is working full-time to fix America's schools. But unfortunately, the convention format takes its toll on him too. He opens with a joke about Wade Boggs's sex life that falls flat. And it doesn't help any that he has a plane to catch. As a result, his presentation is minimal, and he doesn't even stay for the ensuing panel discussion organized around it. All in all, a pretty shoddy appearance—but maybe Sizer was the only one here who gave the AASA meeting the time it was really worth. I figure that, even counting the drive to and from the airport, he must not have been in Orlando for much more than an hour. □



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*For the 1988-89 academic year,* Newsday *reporter Emily Sachar took a leave from her job to spend a year teaching eighth-grade math at a public junior high in Brooklyn. The following passages are excerpted from the series of articles Sachar wrote about her experiences after she returned to the newspaper. It's laudable that the New York City system accepts applicants like Sachar, who didn't have a teaching certificate or a degree from a school of education. This is an excellent way to open up schools to enthusiastic and talented people for whom teaching is exciting and bound up with the love of a subject. But the following passages make it clear that such openness must be accompanied by a preliminary screening of the applicant's teaching skills and mastery of the subject, and that there must be ongoing training from successful teachers. Sachar was unleashed into the classroom virtually unscreened and unsupervised, with zero mentoring or feedback on her teaching ability or subject knowledge. The moral is clear: Lip service aside, the bureaucracy that hired her doesn't value teaching.*

# Teaching Doesn't Count

by Emily Sachar

I hadn't taken any education courses in college. But to obtain the license, I needed only a bachelor's degree. I had never taught before, and that did not matter, either. The Board of Education fingerprinted me, but never asked for personal or professional references.

I later learned from an examiner who was an assistant principal at my school that I could have made five grammar or spelling mistakes and still passed the written exam.

I got the elementary-ed license, but no help finding a job. Despite the critical shortage of teachers, the Board of Education didn't maintain a central clearinghouse where vacancies were listed.

I went hunting on my own. I discovered that I'd have no trouble getting a position teaching junior high math, even though I had never had to demonstrate proficiency in the subject. At Walt Whitman, an assistant principal interviewed me for about five minutes, four days before students were to return to school. I'd run a homeroom, patrol the hallways and auditorium four periods a week, and teach math to five classes of eighth graders. My salary would be $23,000—about $3,000 less than a first-year city garbage hauler would earn.

I was armed only with a 19-hour, three-day training session given by the Board of Education two weeks before. "Don't lend anything to a student, even a pen, without getting an IOU—an umbrella, a Nintendo tape, a mirror," our trainer, a veteran junior high teacher, had told me and my class of 31 fellow recruits.

*Emily Sachar is a reporter at* Newsday. *© Newsday/Emily Sachar. 1990. Reprinted with permission.*

Our trainer also had some pert one-liners. If a student says, "Drop dead," we could retort: "You don't listen to everything I say, and I won't listen to everything you say." If a student says, "____ you," we reply: "I don't want to, and I doubt you could."

My early days in school, which I thought would be consumed with teaching, instead were devoured by discipline problems. One day early in the year, the students in one class rattled their desks whenever I turned to the blackboard; another day, two boys from my bottom class threw a Super Ball around the room.

Even when I wasn't trying to cope with major disruptions, I had to confront the incessant talking and disrespect of many students—to me and to each other. The first few weeks of school, I considered a period successful if I was able to teach 10 minutes out of the 43.

When I tested the authority of the eighth-grade dean by sending him a student who had violently rattled a desk whenever I turned to write on the board, the dean wrote back, "This is not a discipline problem. Please readmit to class."

## Those who can't teach, teach

"There are three things you need to survive in this school system," an assistant principal told me one afternoon. "Not just at this school, but anywhere."

I expected him to say good teaching, good planning, and a love of the kids.

"Clean bulletin boards, impeccable paperwork, and a tidy classroom," he said. "Oh, and one more thing. Discipline. If you've got that, you've got it down."



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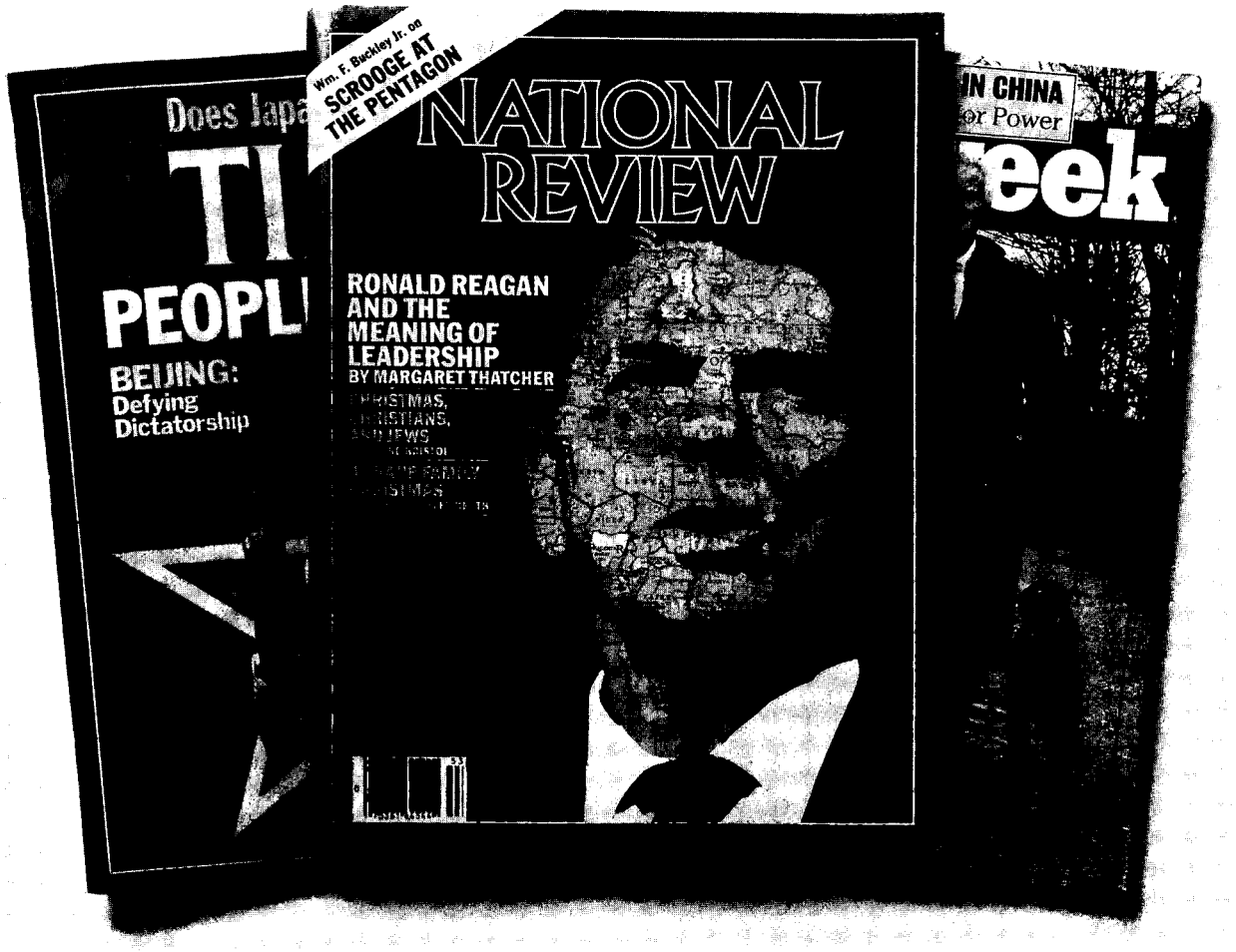


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"You mean when it gets right down to it, you don't really have to teach that well?" I asked. The assistant principal shrugged.

This wasn't official policy at Walt Whitman. It wasn't even this man's view of what makes a good teacher. But it was pragmatic reality. Among the 63,726 teachers in city schools, there are mediocre teachers who hold on to their jobs as long as they master the administrative details. Teachers are rated once a year, on their punctuality, control of their classes, their preparation, and housekeeping. Only two ratings are used—satisfactory and unsatisfactory. Unsatisfactory ratings are extremely rare, so there is virtually no differentiation between mediocre and superb teachers.

I got a satisfactory rating for my work last year. But even if I had been given an unsatisfactory rating, I could have applied to other schools.

If I had been a tenured teacher—a licensed teacher with at least three years' experience—it would have been more difficult to get rid of me. Last year, the Board of Education fired just 20 tenured teachers.

For terrific teachers, there are few rewards from the board or the Whitman administration. Sometimes a letter commending good work is put in a teacher's personnel file, but that's rare. Some teachers are asked to sit on advisory panels and are paid modest stipends, but these extracurricular tasks require extra work. A few teachers are rewarded by being pulled out of the classroom several periods a week to serve as mentors for other teachers. But the school system makes no monetary distinction between terrific teachers and mediocre ones.

Paperwork responsibilities were enormous. A teacher's homeroom attendance must be recorded in three places, and one of them, the red roll book, is so sacred it is collected every few months and audited by the Board of Education.

Because they might make mistakes, Whitman students taking standardized tests are not allowed to prepare the biographical portion of their answer sheets; their homeroom teachers must do it for them. This means that every time a standardized test is given—last year, there were four for the eighth graders—teachers must blacken thousands of little circles on dozens of answer sheets.

## Those who can't learn, graduate

The music director raised his hand, the electric piano started, and several hundred students who had filed into the auditorium began learning the school song. It was the first rehearsal for the 1989 eighth-grade graduation from Walt Whitman Intermediate School in Flatbush, Brooklyn.

I scanned the rows of students. Scattered about were several dozen who didn't know their times tables, couldn't write a simple essay, or couldn't understand a short passage in an elementary textbook. Yet, in less than two months, they would be adorned in caps and gowns and graduated to high school. I felt like I was watching a heinous lie.

And yet, I, too, was perpetuating the lie. I was going to pass students in math who hadn't come close to mastering the curriculum. "Think, before you fail a student, whether he will be well-served by another year here," the Whitman principal, Claude Winfield, told us at a faculty conference near the end of the year. "Are you doing a service to your colleagues who will have to teach that student next year? Are you doing a service to the student who will have to tell himself he's a failure?"

It didn't matter whether kids failed my math class anyway. At our school and most other intermediate schools in the city, kids who would turn 15 by summer's end would be graduated to high school, regardless of their grades or their test scores.

## My pupil, my enemy

I am still stunned by how little teachers are trusted by the school administration. I had to post a time card each morning and each afternoon, and I had to stay in school until the dismissal bell rang, even after I was done teaching for the day. I could not get tests


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mimeographed or order my yearly allotment of supplies without a supervisor's approval.

Chalk was handed out a box at a time. And "out of order" signs were taped to the copying machines even when they worked; teachers were not permitted to use them. Materials for students were rationed even more stringently. For the first three weeks of the year, we were not allowed to distribute textbooks. Yet we were also limited to one class set—35 copies—of any worksheet. If I needed worksheets for more than one class, I had to forbid the students from writing on them and retrieved them for my next class. A supervisor had to sign off on anything I wanted to have copied.

For all the talk of accountability I had heard as an education reporter, I found a system where excellence is rarely rewarded and incompetence is rarely punished or helped. Even a simple thank you is rarely uttered by an administrator to a teacher. Great teachers usually are great because they care to be great, not because the system demands it. Lazy teachers are allowed to stay that way. A tenured teacher who minds his kids and his paperwork is rarely dismissed, even if little teaching goes on in his or her classroom. By the same token, teachers who want and need good words rarely get them.

Ultimately, I saw a system that often does not have the time nor the inclination to care about the kids inside it. Most of my eighth graders, for instance, never got even a five-minute block of time with a guidance counselor to help map out their future or to discuss which of the city's 117 high schools might be appropriate for them. Since I didn't understand the verbose and tedious high school directory, I couldn't help the kids much myself.

And, unless they're participating in a special program, kids may not stay after school. Without special permission in writing from a supervisor, they may not enter school early, either. Although the need for security was real, I felt sometimes like I was working in an institution that considered its clients—the kids—to be dangerous intruders. □

# The Washington Monthly JOURNALISM AWARD

## FOR MAY 1990 IS PRESENTED TO:

### Paul Glastris
### *U.S. News & World Report*

In his May 7 cover story on "The New Way to Get Rich," Glastris reveals that one reason the baby boomers bought all those BMWs is that they knew they were going to inherit a bundle from Mom and Dad. The number of millionaires and decamillionaires almost tripled during the eighties while, because of the Reagan tax cuts, the number of estates subject to taxation plummeted by two-thirds. If high estate taxes were enacted now, the result would be an increase in the savings rate of the baby boomers who obviously have been counting on their parents to do their saving for them.

## FOR JUNE 1990 IS PRESENTED TO:

### Ken Bode and Brooks Jackson
### *CNN Special Assignment*

This five-part series by CNN's new investigative team, captained by Bode and Jackson, did the best job yet of laying out for a TV audience the complicated web of fraud, corruption, ideological fervor, and stupidity that exacerbated the S&L crisis and continues to dog the bailout. Throughout, the series played skillfully to television's strengths, showing for the first time clips of the famous 1984 video, made by a regulator, of the ghost towns built by Empire Savings Bank of Texas—apocalyptic images that launched Ed Gray on his ill-fated crusade to draw administration and congressional attention to some of the industry's problems. Other notable clips include one of Ronald Reagan signing the Garn-St. Germain Act in 1982, drastically deregulating the S&Ls. "All in all," Reagan announces proudly, "I think we hit the jackpot." Adds Bode: "Overnight, the S&Ls became casinos."

**The Monthly Journalism Award** is presented each month to the best newspaper, magazine, television, or radio story (or series of stories) on our political system. Nominations for any newspaper, magazine, or radio or television station in the country are welcome. The subject can be government in its federal, state, or municipal manifestation. Please send nominations to Monthly Journalism Award, 1611 Connecticut Ave. NW, Washington, D.C. 20009. Two copies of the article or broadcast text should accompany the nomination.

The award for stories published or aired in July will be announced in the October issue. Nominations for stories published or aired in August will close September 15. The winner will be announced in the November issue.



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# WHO'S WHO

White House and State Department aides are laughing about Chief of Protocol **Joseph Reed**'s growing propensity for inserting himself into groups consisting of George Bush and world leaders just as the photographers are about to snap their pictures. . . .

Reed's deputy, **Jennifer Fitzgerald**, who is widely rumored to be a former mistress of **George Bush**'s and who we reported in June was caught trying to sneak some furs through Customs, has been formally charged with "gross misconduct" by the State Department's inspector general, not for fooling around with the president but for smuggling the skins. The punishment, unless she appeals, will be 15 days leave without pay. . . .

As recently as the Tuesday before Iraq invaded Kuwait, **John H. Kelly**, the assistant secretary of state for Near Eastern and South Asian affairs, was testifying before Congress opposing sanctions against Iraq. The State Department was so little concerned about the situation in Baghdad that it permitted our ambassador, **April C. Glaspie**, to be away on vacation during the time the invasion occurred.

Such performances by State are one reason why a separate foreign affairs bureaucracy has grown up at the White House, with 60 or 70 bureaucrats of its very own. For example, that fellow who rushed up to Bush to hand him a memo as the president was stepping from his helicopter onto the White House lawn on the Sunday after the invasion was **Richard N. Haass**, the NSC's own director of Near Eastern and South Asian affairs. . . .

When Republican National Committee Chairman **Lee Atwater** invited pro-choice Republicans into the GOP tent, he may have had in mind **Roger Stone,** a Republican political consultant who, with his wife, **Ann Stone,** founded Republicans for Choice. Roger Stone is a partner in Black, Manafort, Stone, and Kelly, the formidable Republican consultants who helped get **George Bush** elected. **Charlie Black** recently became the innocuous sounding "spokesman" for Atwater, who is suffering from a brain tumor. Some White House insiders believe the soft-spoken Black, less flamboyant and more comfortable with ideas than Atwater, will more effectively steer Republicans out of the savings and loan quagmire and other troubled waters than Atwater could have.

"Charlie's the kind of guy who if he came home and found somebody making out with his wife on a rainy day, he'd break the guy's umbrella and ask him to leave, then have him killed a year later," **Roger Ailes** recently told **Robin Toner** of *The New York Times*. "Lee would blow the house up.". . .

**Fred Malek,** who was tossed out of Bush's 1988 campaign after revelations that he counted Jews for **Richard Nixon,** won plaudits from Bush for his performance in running the Houston Economic Summit, and is said to be slated for more assignments from the White House. . . .

Former Senator **John Tower** is also making a comeback. Though it's doubtful that the failed candidate for secretary of defense will ever get his preferred job, Tower, who recently was appointed by Bush to head the president's Foreign Intelligence Advisory Board, is said to have Bush's ear on a wide array of spying matters. . . .

White House interns who shunted **David Souter** and runner-up **Edith Jones,** the federal appeals court judge, to and from the Oval Office, were told that for the rest of their lives they could never identify the "second person." Of course, that didn't stop **John Sununu,** the guy who gave the order, from revealing her name to *Washington Post* reporter **Ann Devroy**. . . .

White House aides are irritated with Secretary of Agriculture **Clayton Yeutter** for his lackluster performance on the farm bill, which they contend did little to curb the natural appetite of lawmakers to pile on more subsidies. Yeutter and his aides actually helped defeat the proposal, supported by OMB, among others, to outlaw subsidies to farmers with incomes over $100,000, thus proving an old Washington rule that after their first year in office cabinet secretaries tend to be more loyal to their constituencies than the administration to which they belong. . . .

As we explained to our readers last year, the State Department bureaucracy feels shut out by **James Baker** and his clique of top advisers. The most recent manifestation of its resentment was the leak to the press of the plans for Baker's hunting junket to Mongolia, in which it was revealed that the Mongolian government was going to let Baker kill a rare argali sheep, which it normally charges hunters $25,000 for a permit to shoot and which is described by the U.S. Fish and Wildlife Service as a "threatened" species. . . .

**In**—*Commerce:* Assistant Secretary for Trade Development—**Timothy John McBride.** Assistant Secretary of Commerce—**Wayne L. Berman.** *Health and Human Services:* Assistant Secretary for Legislative Affairs—**Steven B. Kelmar.** *Justice:* Assistant Attorney General, Criminal Division—**Robert S. Mueller III,** Assistant Attorney General, Legislative Affairs—**W. Lee Rawls.** Assistant Attorney General, Office of Legal Counsel—**J. Michael Lutting.** *State:* Legal Adviser—**Edwin D. Williamson.** *Treasury:* Assistant Secretary for Domestic Finance—**Jerome H. Powell.** *Agencies and Commissions:* Securities and Exchange Commission, Member—**Richard Y. Roberts.**

**Out**—*Health and Human Services:* Assistant Secretary for Legislative Affairs—**Gerald L. Olson.** *Justice:* Assistant Attorney General, Criminal Division—**Edward S. G. Dennis.**



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# How to Fix the Budget Without Hurting the Country

*Some common sense solutions*

by Nathan Emerson and Afshin Molavi

The unctuous-looking salesman in the magazine ad offers the reader a bottle labeled "Securities Transaction Excise Tax." The advertiser is Merrill Lynch, and the accompanying text warns that such a new tax on stock and bond trades "could have a very damaging effect on the financial markets and the economy." Merrill Lynch says that the tax's side effects would include "a $25 billion reduction in the Gross National Product" and "a 250,000 person increase in unemployment." In a similar effort, Anheuser-Busch is running TV ads suggesting that increasing the tax on beer would destroy all those golden moments featured in its regular commercials. These ads epitomize the latest trend in antitax thinking. "It's not that we're against increased taxes because we're selfish," the reasoning goes, "our concern is that any tax increase will hurt the nation."

This line makes for good advertising copy, but is it true that all attempts to raise revenue will wreck the economy? No. In fact, many would help it.

The federal debt is pushing $3.5 trillion. As things stand, next year's contribution to that debt, the 1991 budget deficit, will be about $170 billion. If no headway is made on reducing that figure by October, the "sequestration" procedures of the Gramm-Rudman-Hollings deficit control law will kick in, mandating across-the-board budget cuts.

But those procedures are not the answer. Rather than enforce budget discipline, as they were supposed to, they have merely added "off-budget" gambits to government's well-stocked arsenal of responsibility-avoiding accounting games. Even worse, sequestration is the ultimate example of preferring the bludgeon to the scalpel. Not all parts of the budget are equally fat; some are too lean. The only way to make gains against the deficit is to consider revenues and expenditures on their individual merits. The following proposals do just that.

➤SOCIAL SECURITY—Social Security benefits are completely tax-free for couples with adjusted gross incomes under $32,000 and for individuals making less than $25,000. Even those above these thresholds pay taxes on no more than 50 percent of their benefits. And Social Security taxes are withheld at the same rate regardless of the taxpayer's total income. Out of the $10,833 in yearly income made by a typical McDonald's employee, the federal government automatically skims $765 off the top in Social Security withholdings. To the burger flipper, that's no small amount. The problem with this setup is that it

*Nathan Emerson and Afshin Molavi are interns at* The Washington Monthly.



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doesn't discriminate enough between the needy and the non-needy. Social Security withholding really hurts the low wage earner, while the high-paid one doesn't even notice it. To those below the cutoff, Social Security income is a precious source of subsistence, while to most of those above it, it's just more disposable income.

Here's what we should do to fix all this: Eliminate Social Security withholding for low wage earners—say, on all those making less than $15,000 a year—but treat all Social Security benefits received by those above the $25,000/$32,000 cutoff as ordinary taxable income. It's estimated that making these changes would produce $3 billion in annual revenue.

Furthermore, according to government estimates, people who retired in the mid-1980s will receive Social Security benefits 2.5 times the value of their own contributions. Since Social Security is essentially for the living, why not take such excesses back as part of the inheritance tax when these beneficiaries die? (Out of fairness to the poor recipient and his heirs, we should establish a threshold for the deceased's total assets below which this recovery technique would not apply.) Implementing this idea in 1991 would probably generate about $15 billion.

➤INCOME TAXES—"I grew up in one of those households," writes the novelist Michael Thomas, "where Roosevelt was cursed up to 30 years after his death for the high taxes the successful paid, and I had to hear, 50 times if I heard it once, how Bing Crosby worked for Uncle Sam from Monday morning until Saturday noon, but got to keep what he made Saturday afternoon, and in my time . . . I suppose I did my share of bellyaching about marginal rates. . . . But, consider, gentle reader: In those days, the guys who were inspired to work, worked hard; new businesses sprang into being and created whole industries, new competition; I could never see that the tax system destroyed native initiative. Alimony's much worse on that score, believe me."

Unfortunately, the current tax structure has Thomas's point completely backwards. Citizens for Tax Justice estimates that since 1978, tax cuts for the richest one million Americans have cost the federal treasury $860 billion. Refocusing the tax code on the rich would produce revenue while helping the economy by lightening the load on the majority of consumers.

Under the current tax law, a household earning more than $208,690 pays the same 28 percent marginal rate that governs the bulk of the middle class, while upper-middle-class Americans earning less than $208,690 pay at a 33 percent marginal rate. If the tax code was made fairer by introducing a top rate of 38 percent, the government would bring in an added $13 billion in revenue in 1991 and a total of $142 billion through 1995.

Both President Bush and Dan Rostenkowski, chairman of the House Ways and Means Committee, advocate reducing the tax rate on capital gains. And there is in fact real merit in *some* schemes for reducing them—such as in a sliding scale treatment that punitively taxes investors for gains made after short holding periods (say, 100 percent tax on the profits made in less than one year) and then gradually reduces taxes (up to say, no taxes due on gains made after a holding period of five years). This kind of plan would promote long-term investment strategies without necessarily raising additional tax revenue. But as long as our focus is on finding new federal dollars, it's relevant to point out that since 90 percent of all capital gains are enjoyed by the richest 10 percent of the population, upping the tax on them—which could be done by continuing to treat capital gains as ordinary income while raising the top income tax rate to 38 percent—will raise money without really hurting anybody. And even more money could be raised by taxing the built-up capital gains on inheritance income. This new tax could be part of a package that lowers the amount of income shielded from estate and gift taxes back to pre-Reagan levels. Together with capital gains tax reform, such a package could produce $4 billion a year.

The homeowner tax deduction should be similarly modified. If we limited mortgage interest deductions to $12,000 per single return and $20,000 per joint return—for most mortages that would mean still granting complete interest deductibility to houses worth up to $200,000 (single return) and $300,000 (joint return)—we'd produce $1.25 billion in additional tax revenue, while affecting less than 0.5 percent of all taxpayers. Alternatively, we could eliminate the deduction for the 3 percent of all taxpayers who make over $100,000, producing an extra $11.6 billion in annual tax. Eliminating it for the 0.8 percent of taxpayers who make over $200,000 would still net $3.7 billion.

Besides the big chunk of Social Security tax taken from that McDonald's employee, there's also a smaller piece of change—about $375—that the government automatically filches from him in income tax withholding. The earned income tax credit is designed to alleviate this problem by reducing or returning income taxes to low-wage earning parents in the form of year-end tax rebates. But many of the working poor use the one-page 1040EZ tax return, which can't be used to claim the credit. To get it, you have to file a 1040 or 1040A form, along with some special eligibility forms. All this takes more skill and time than most low wage earners have. (Not surprisingly, only 50 percent of the families making less than $15,000 a



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year apply for the credit.) What's worse, the McDonald's guy is in effect loaning the $375 to the nonsalaried rich guy, whose trust funds, stock dividends, capital gains, and inheritances aren't subject to paycheck income tax withholdings. Why should he be forced to make that loan and then have to hire Covington and Burling to get it back? The solution is to drastically cut or end income tax for the low wage earners—those making less than $15,000. This would cost the government $14.4 billion—but that's only three-quarters of what it gains from raising the top corporate and personal income tax rates to 38 percent.

➤CORPORATE TAXES—In 1960, corporate taxes yielded 23.4 percent of all federal tax revenues. Today they account for only 11.9 percent. By increasing the top corporate rate to 38 percent, we could raise an additional $6.2 billion in 1991 and a total of $54.6 billion through 1995. Currently, companies can write off 85 percent of their business meals and entertainment. Dropping that ceiling to 50 percent would generate another $2 billion per year.

➤FARM SUBSIDIES—In successive five-year plans, the government allocates money to farm programs that cost consumers billions in inflated food prices. In 1989 even the Department of Agriculture conceded, "Without government support, consumer prices would fall by about 12 percent." All told, government farm subsidies add about $400 to the annual grocery bill of the average family. "If the sugar price goes up, the sugar farmer reaps the upside. If the price goes down, there's a floor. Sound familiar?" asks Senator Bill Bradley. "The sugar program is the S&L [scandal] of agricultural policy."

The stated objective of farm subsidies is to protect farmers by stabilizing food prices. But the average yearly farm income is $168,000. Indeed, 60 percent of all price support money goes to farms with gross receipts of over $500,000 a year. Government farm spending is so out of whack that until the recent crisis, close to 25 percent of the loan guarantees in our export crop subsidy program went to—are you ready?—*Iraq*. Each of you had been paying to help stock Saddam Hussein's refrigerator. Doing away with this nonsense—eliminating all farm programs except for disaster relief and aid to farmers with net incomes less than $60,000 a year (but more than some amount that excludes hobbyists)—would ease grocery sticker shock for working families and save about $13 billion a year.

➤EXCISE TAXES—Smoking costs society $65 billion a year in health care bills and lost productivity. Lung cancer and other smoking-induced fatal illnesses reduce the labor force by more than 1.3 million person-years annually. And a 1984 study by the Research Triangle Institute suggests that the true annual cost of alcohol abuse is at least $116.7 billion. Yet inflation-adjusted tax rates on cigarettes have fallen to half their 1950 level, and those on alcohol have fallen to 25 percent. Raising excise taxes on cigarettes and alcohol will undoubtedly depress sales in the long run and hence free up many of these billions for the rest of the economy. But at current rates of consumption, doubling the cigarette tax from 16 cents to 32 cents a pack would raise $2.8 billion annually, while raising the tax on a six-pack of beer from 16 cents to 63 cents and on a bottle of wine from 3 cents to 54 cents would raise $4.5 billion a year.

And the securities transfer excise tax that Merrill Lynch is so worried about would raise $58 billion in five years from people and institutions that can afford it. Moreover, it would discourage day trading, churning, and other short-term practices that are bad for the economy, and would instead encourage the stable pool of investment capital that business needs to succeed.

➤SPENDING TO SAVE—"Our computer system is way outdated," complains Wilson Fadely, an IRS official. "It is absolutely essential that we revamp the system." How much would that cost? "About $10 billion over 10 years." Now, it's estimated that for every extra dollar given to the IRS on top of their current budget, the treasury receives $9.30 in increased tax revenues. So this computer overhaul would probably net at least $83 billion. That, and additional funding for more return examiners and auditors, could go a long way towards getting back the estimated $80 billion in uncollected taxes owed each year to the federal government. In a similar spirit, the General Accounting Office says *its* spending/saving ratio is $1 to $26. Putting more money into these agencies could save billions.

➤DEFENSE—It'd be a damn shame if Saddam Hussein's move into Kuwait becomes an excuse for avoiding responsible cuts in military spending. Unfortunately, there are already warning signs that such nonsense has begun. "Whatever chances we had for deficit reduction a couple of weeks ago," said one congressional source right afterwards, "are greatly complicated by events in the Gulf." And the first Sunday morning after the invasion, one public affairs show featured a discussion of the topic, "Iraq: A New Case for the B-2?"

Questions like that should prompt the calm voice of reason to respond with a question of its own: ARE YOU OUT OF YOUR MIND? The B-2 is the answer to Saddam Hussein the way the A-bomb is the answer to street crime. Hussein's invasion reminds us that the post-Cold War world is still fraught with international danger, but it's no excuse for overlooking the distinction between military necessities and military frills. The world's changes mean that we should



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cut those weapons—like the B-2—that were designed to oppose the Soviet Union in an East-West confrontation and shift our attention instead to what we really need for dealing with today's emerging adversaries: nonaligned nuts with nukes and chemical weapons. What we want then is the cheapest mix of conventional weapons and troop strength that provides a deterrent to these new thugs on the block and the minimum nuclear arsenal necessary for maintaining peace among the superpowers.

Looking at things this way makes it clear that besides the B-2, we also don't need the "rail garrison" MX missile, the new generation of Trident missile, or "Star Wars." These systems have plenty of problems, but even if they performed perfectly, they still wouldn't add to our security among the other superpowers (in fact, they arguably would destabilize it), and none is relevant to the Hussein-type threats. The Rand Corporation, a conservative think tank, estimates that the U.S. needs only 1,000 warheads for a retaliatory strike capable of destroying the U.S.S.R. We should cut down to this number, end new warhead production, and continue only enough research and testing to maintain that arsenal. Doing so would save around $38.4 billion over the next five years.

Right now, the Pentagon is lobbying for not only the B-2, but also the Navy's A-12 carrier plane, the Air Force's Advanced Tactical Fighter, and the Army's LH light helicopter. Let's cut all these projects now and save the $286.5 billion they would cost us in the next five years. Add to these the cuts that the Pentagon has itself endorsed: the M-1 tank ($6.2 billion), the V-22 transport ($6.5 billion), the Apache helicopter ($2.5 billion), and the F-15 fighter ($3.3 billion). (We can use the technological skills that would go into these white elephants to solve the other big problems facing us: environmental pollution, mass transportation, and drugs.)

The Middle East situation shows that we need some aircraft carriers. But do we need 14—what we have now—or 12—what the Pentagon has agreed to? The newest carrier, the *George Washington*, costs $3.5 billion to build. But that's just the start. There's also the 85 aircraft (cost: $5 billion), two cruisers ($2.3 billion), five destroyers ($4 billion), two attack submarines ($1.3 billion), three frigates ($1.5 billion), and supply ships and tankers ($1 billion) that a carrier needs for survival. So buying a carrier leads to procurement costs of $18.6 billion.

And don't forget the operating costs. Actually putting the carrier and its entourage to sea costs between $515 million and $1 billion a year. All this means that on the Pentagon's assumption of 30-year service lives for the ships in question, not deploying the *Washington*, not building its support ships, and not building its two planned successors, would save $119.8 billion. Add to that the savings of $18 billion you get by cutting six of the carriers we already have—leaving us with a force of eight, twice what we're using in the Middle East crisis—and altogether you've saved $137.8 billion. Over the 30 years of expected use, these cuts save us $4.6 billion a year.

Responding to a Third World threat like Saddam Hussein's by deploying large numbers of troops overseas risks getting drawn into a prolonged overseas land presence, which promotes both anti-U.S. terrorism and escalation into a quagmire. Doesn't anybody remember Beirut? Vietnam? This policy is ultimately based on the idea that the U.S. wins its battles by attrition—a hideously inhumane strategy. Our refashioned military should reject this principle and work instead on maximizing the threat to the Husseins of this world while minimizing reliance on large troop deployments to do so.

This change in thinking implies that new hardware expenditures should be directed towards high-threat, low-risk "stand-off" weapons with conventional warheads of the sort that could scare Iraq plenty without giving it much to shoot back at; in short, better versions of the medium-range Frog and Scud anti-ground missiles that Hussein is panicking everyone else with. We already have the world's most accurate missile of this sort—the Tomahawk—but it's currently carried only on 40 submarines and surface ships. Spending some money to put the equivalent weapons on more ships, under the wings of planes, and in the ranks of the Army would make a lot of sense.

Another corollary to adjusting to the new military exigencies is that we don't need a large standing force. We can cut our current military personnel levels (now over two million) by at least 25 percent. Of course, these cuts should include severance bonuses for those who decided long ago to make a career of the military (people who've already put in at least ten years). The Congressional Budget Office estimates that cutting 500,000 people from the military by 1995 would save $34.2 billion—and that's including severance payments of over $3.2 billion. In a military that has officers running health clubs and managing restaurants, we will help, not hurt, readiness by cutting the officer corps in half—and we will save $20 billion.

It's time to see how much loose change we've found in the annual federal budget: Social Security: **$18 billion**; Income Taxes: **$6.3 billion**; Corporate Taxes: **$8.2 billion**; Farm Subsidies: **$13 billion**; Excise Taxes: **$18.9 billion**; Spending to Save: **$8.3 billion**; and Defense: **$121.4 billion**. Taken together, these measures would save **$204.9 billion** next year and **$1.01 trillion** over the next five years, with little or no economic disruption. Let's see Merrill Lynch and Anheuser-Busch top that. □



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# MEMO OF THE MONTH

DEPARTMENT OF THE ARMY
U.S. TOTAL ARMY PERSONNEL COMMAND
ALEXANDRIA, VA
22332-0400

REPLY TO
ATTENTION OF

TAPC-ZA

6 April 1990

MEMORANDUM FOR SEE DISTRIBUTION

SUBJECT: PERSCOM Greeting

1. The Army has long been known for its esprit de corps--many units boasting a special motto of recognition to distinguish their members.

2. In keeping with this tradition and reinforcing our solidarity, PERSCOM military and civilian personnel are encouraged to use the "TOTAL ARMY"-"TOTAL VICTORY" motto whenever possible. For instance, when rendering hand salutes, the junior PERSCOM soldier should say, "TOTAL ARMY" -- the senior soldier responding with, "TOTAL VICTORY"; and when leaving meetings, the senior person should say, "TOTAL ARMY" with those in attendance responding, "TOTAL VICTORY."

3. As our distinctive unit insignia shows...the globe, the sword and the arrows...we are one organization that touches each soldier and Department of the Army civilian worldwide.

4. Let this greeting be one that forms a special tie between each of us here at PERSCOM.

"TOTAL ARMY"--"TOTAL VICTORY!"

ROBERT L. ORD, III
Major General, USA
Commanding

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# Congress's Mail Prostitution Ring

## Why America should be frank-incensed

by Weston Kosova

You can't fully appreciate just how much mail members of Congress send to their constituents until you've been underneath the Rayburn congressional office building. Walking the miles of beige corridors, you bump into a pile of mail every few yards. The stuff's everywhere. Boxes and boxes of it. Newsletters and postcards, notices and invitations, all of it neatly sorted and stacked nearly to the ceiling.

In the rooms around the House printer, two floors below Rayburn's basement, there's still more. It's a fantastic scene. The bass hum of printing presses echoes constantly from the corridor walls. Men drive forklifts back and forth between rooms full of enormous rolls of white paper and the pressroom, carefully maneuvering through hallways not built with forklifts in mind. The air is hot and smells strongly of ink. And every square foot of the walls, up to eye level, is covered with mail.

In place of a stamp, every piece of mail bears the signature—the frank, as it's known—of the congressman or senator sending it out, and that means the pieces are delivered at no cost to him. The U.S. Postal Service is paid each year for the cost of these mailings from federal money appropriated for this purpose. This free mail perk, created by the Continental Congress in 1775, was intended primarily for intergovernmental mail and individual correspondence with constituents—helping a pensioner locate a lost government check, or answering a complaint. In practice, though, less than 4 percent of the mail leaving House and Senate offices is used for this kind of constituent response. Now more than ever, congressmen use the frank as a year-round campaign tool. The rules governing the frank say that's okay.

The basic rules are simple enough. The House and Senate each set aside a certain amount of money every year for franked mail. Out of that sum, each representative may send out three districtwide third-class mass mailings (that's any batch including more than 500 pieces), and each senator may send out three statewide third-class mass mailings. You've seen them—the four-page letters marked "postal patron" that your representative in Washington sends to remind you of what a great job he's doing and how much he cares about you personally.

Yet, thanks to other rules on franked mail, too many of these letters *aren't* covered by these restrictions. For instance, "any mail matter which relates solely to a notice of appearance or a scheduled itinerary of a member in the area . . . shall not count against the limitation." That's why the number of franked postcards announcing House members'

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forthcoming appearances is staggering. And in both bodies, members may use franking money not consumed by the mass mailings to pay for first-class letters to individuals. In the Senate the franking budget is divided among the members, and after it's spent, further expenditures can be taken from their individual office budgets or leftover campaign funds. All these transactions are made public. But in the House, the franking budget isn't divided up and individual franking totals aren't disclosed; what's more, the Post Office is required to deliver all franked mail from the House even after the year's franking funds are exhausted. So in practice, House members have no real limit on the amount of franked mail they can send out. This year, for example, the House appropriated $44 million for franked mail, but by year's end representatives will have sent out nearly $82 million worth. Any amount by which House members exceed their franking budget is simply tacked on to the next year's appropriation. This allows House members to ignore budget constraints completely.

This set-up explains why in 1990 the Senate and the House together will spend $106 million on their "free" mail. That's more than the federal government spends on high school dropout prevention.

The main problem with the frank, however, isn't what it costs each year (in Washington nobody raises an eyebrow over anything less than a billion anyway), but the tremendous advantage it gives to incumbents, who can use it to flood their constituents with what amounts to campaign literature. More and more in recent years, senators and especially representatives are using the frank to send letters targeted to a particular group of constituents, chosen from minutely detailed lists of people. Your congressman compiles vast amounts of information about you by buying and cross-referencing membership lists from professional organizations, alumni associations, churches, and motor vehicle bureaus. He may send you a letter describing a particular piece of legislation having to do with your profession or hobby. *Monthly* readers will remember a May 1980 article by a congressional aide who described how he did just that:

"I began with a personal letter to each of the special interest groups we had on file. The physicians received a letter from my congressman enclosed with a reprint from the *Congressional Record* of his recent remarks on the horrors of socialized medicine. The docs ate it up. The nurses got a letter pointing out the congressman's recent vote to increase funds in the federal budget for nurse training programs, along with a copy of his impassioned comments on the subject. Each of these letters began, 'Knowing of your intense personal interest in any legislation affecting physicians/nurses, I thought you might be interested to see. . . .'"

If you're a senator and your constituency is split on an issue, you can mail two or three different letters on that issue to different constituents and avoid taking a stand that might offend potential voters. Or if you do take a position contrary to a number of constituents, you can send a letter explaining how you took their views into consideration in making your decision.

## Mail bonding

The rise of targeted computer-generated mass mailings has spawned a franking industry in the House and Senate to handle the tremendous amounts of mail leaving congressional offices. All mass mailings, whether they're printed by printers under the Rayburn building or by an outside firm, must go through the Folding Room, where they are sorted and boxed by zip code. The Franking Commission, which oversees all of this mail, has two majority staff members, two minority staff members, a legal administrator, and a public relations director.

And there are other expenses that are the direct result of the frank but are not commonly associated with it. Congressional staffs have grown to take on the hours of computer work generated by the mass mailings. "That's all they do over there. They make mail. God knows they don't make any laws," says one former House staffer.

One senate staff member estimates that mass mailings take up about half of a typical senate office computer operator's time and "about a month of the year" for the other staff members. It's this kind of manpower that enabled the Senate's two biggest frank offenders, Alan Cranston and Alfonse D'Amato, to spend $3,870,715 and $3,484,946, respectively, on franked mail in 1987-88. And on the Senate side the restrictions on franked mail keep the volume per member lower than it is in the House.

Last year Common Cause reported that of the $52,760,528 the Senate spent on mass mailings (not constituent response mail, just mass mailings) between 1987 and 1988, more than $20 million was spent by the 27 senators up for re-election—55 percent more than for the senators not running. "The frank is being used as a campaign subsidy—unabashedly and outrageously," says Senator Gordon Humphrey, critic of the frank, who spent a little over $3,000 on mass mailings last year.

The same is true in the House, where every two years the number of franked mass mailings jumps despite rules prohibiting use of the frank for campaigning. House incumbents often spend more on the frank alone than their challengers do on their entire campaign. In the last election year, 1988, House franked



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mail costs rose from $45 million in the preceding year to $77.9 million. In the Senate, costs rose from $19 million in 1987 to $35.5 million.

## Beans to the frank

There may be a lot of rules on paper, but in practice, "There are no rules," says Rep. Bill Frenzel. "It's more loophole than law. They are hideously inadequate." A quick run through the Franking Commission's 70-page "Rules on the Use of the Congressional Frank" goes a long way toward showing how members can evade the restrictions. Throughout the book, usually right under a rule or restriction, are the big-as-a-truck loophole phrases, such as "The Commission points out that the guidelines set forth above do not carry the full force and effect of regulations . . . but have been established to assist Members in preparing newsletters and other mass mailings." The biggest joke, though, is the book's overarching rule: The frank is not to be used for patently political purposes.

Witness the guidelines laid out by the commission on the use of "personally phrased references" in newsletters: "Members are cautioned on the excessive use of personally phrased references (Member's name, 'I,' 'me,' 'the Congressman,' 'the Representative')," the rulebook says. Here's the caution: "for the most part such references shouldn't appear more than eight times a page."

But that eight times doesn't include the representative's name on the masthead, or a signature, or a photograph caption, or a reprint from a magazine. In other words, only eight personal references are allowed, unless you use more. Thus, Rep. Dennis Hastert's summer 1990 mailing packs 48 references to himself into four pages, just a handful short of Rep. Newt Gingrich's 54. Nearly every other mailing I saw (for this story I waded through a pile of about 200) had more than the prescribed eight.

The guidelines for the use of photographs are equally quirky. Members are instructed not to use more than two photos per page and are encouraged "to limit their use of photographs and text which de-

## The Other Essential Campaign Reforms

In addition to the virtual elimination of the franking privilege, there are several other reforms that we could employ right now to make political campaigns cleaner and fairer:

TV ADS—MAKE THEM MEANINGFUL. TV's visual effects have a power to mislead and deceive that far outstrips print. A politician's manufactured ads usually make him look better than he deserves and his opponent look worse than he deserves. And showing a glowering Willie Horton enables a candidate to transmit ideas he wouldn't dare *write* or *say* because of their unacceptability or downright falsehood. There's no social benefit in any of this. That's why there's a need for special controls on TV political ads. Fortunately, the required fix is very straightforward: All TV spots should be restricted to showing the candidate speaking to the viewers (or debating his opponent). This control doesn't infringe on free speech. The candidate can still say anything he wants—he just has to say it himself.

AND MAKE THEM FREE. In many congressional campaigns, at least half the money the candidate raises goes into his television ads (in presidential elections, the percentage is higher than that). This means that the most direct way to end the money chase in politics is not the baroque "voucher" plans and voluntary spending limits politicians are now toying with—it's to *give* politicians air time. In return for granting television stations their lucrative broadcast licenses, it's reasonable for the FCC to require them to donate time for political ads. After all, in 1988, TV stations took in about $27 billion in ad revenues. Thirty or sixty seconds here and there isn't going to dent those totals very much. Admittedly, some detail-work will be needed to make this proposal function for the larger fields of candidates in primary elections, but there's no reason not to adopt it right now for general elections.

ELIMINATE POLITICAL ACTION COMMITTEES—PACs are ways to disburse funds that cause nothing but trouble. Like the frank, PACs give an unfair advantage to incumbents, who receive by far the preponderance of their donations. (With the help of PACs, there are four senators running for re-election this year who have raised $1 million despite being *unopposed.*) Because of the way they pool contributions, PACs affect elections much more than any individual can. Indeed, PACs have made it possible for individual constituents to be eclipsed in the political process by other less worthy interests. Unlike the individual voter who, with his vote and his



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pict them receiving awards, certificates, or commendations." Yet Hastert's mailing had three photos of him on the front page, two on every other.

To get an idea of how meaningless the guidelines truly are, here are some samples from recently mailed newsletters: There are photos of Rep. Porter Goss receiving the "Golden Bulldog Award"; Rep. Tom DeLay receiving the "Spirit of Enterprise" award; and Rep. Matthew Rinaldo being presented with the "Merit Award of the New Jersey Association of Nonprofit Housing for the Aged."

Rep. Mike Espy reprinted a page from the Japanese newspaper *Asahi Shinbun*, where we're told that "Espy is able to market Mississippi and the Delta every chance he gets." A letter from a satisfied constituent gets prominent billing in Marilyn Lloyd's newsletter: "I want to thank you for your help in getting my Medicare, Part B problem straightened out. Had it not been for you, I am sure it would never have been done. It is so very satisfying to know that in our district we have a caring person like you in Washington to handle such matters for us."

"Have you ever wondered what Members of Congress do during those congressional recesses you hear about?" asks Rep. Dave Nagle's "Congressional Update." Nagle informs his constituents that he "drove an old Chevrolet to 58 Iowa cities, in all 16 Third District counties, to gather advice and hear local opinions." Rep. Jim Inhofe "has been on a budget balancing amendment crusade for more than two decades. It was 20 years ago when syndicated columnist Anthony Harrigan referred to Inhofe as 'a voice in the wilderness.' . . ."

The rules may prohibit using the frank for partisan politicking, but they somehow didn't stop Newt Gingrich from telling his constituents that "liberals want to tax everyone and give the money to government-approved day care centers. Their approach ensures that only those centers skilled at pulling political strings and jumping through bureaucratic hoops will get money. Conservatives want to empower parents with the freedom to choose child care that is right for them."

In 1983 Common Cause sued the government on the grounds that the frank gave an unfair advantage

direct financial contribution to a candidate, is trying to influence the outcome of an election, PACs express an interest in influencing the person who wins that election, an altogether different and less healthy thing. PACs tend to promote single issue and special interest politics. Because they are creatures of money men and political operatives, they tend to squeeze out the points of view of the poor and the disorganized. For the same reason, PACs enable organizations in big money states like New York and California to have inordinate influence in the politics of smaller, poorer states. Any of these facts would be reason enough to consider doing away with PACs (and the PAC-like charades such as "soft money," through which political parties spend unlimited individual and union donations on "party-building" activities that ultimately help finance candidate races, and "bundling," where a group of people together orchestrate donations to a candidate while pretending that each is making an individual contribution). Taken together, these considerations provide an overwhelming case for abolition.

OVERHAUL THE FEDERAL ELECTION COMMISSION—What's the use of having good rules governing elections if no one enforces them? In 1984, Senator Alan Cranston's presidential campaign admitted to the FEC that it had accepted $45,000 in illegal contributions from a mob-connected commodities trader, Mark Weinberg. Although Weinberg never denied the action, and the FEC fined him for it, six years later, he still hadn't paid up. "I'll eventually pay the FEC, but I'm in no hurry," Weinberg told reporter Brooks Jackson. "The FEC is a bunch of idiots, in my opinion."

The man has a point. The FEC has six members, with no more than three from each party, and since four commissioners must agree before any case is decided, this means that inaction is the norm. (The commission used to include the last two digits of the year that it opened an investigation in the numbers it assigned to cases, but it dropped this practice, which made it too obvious that it was taking years to resolve them.) Giving the FEC an odd-number of members and staggering their terms would help break it out of the purely partisan deadlocks it so often finds itself in now. In addition, the FEC should be given field investigators, the power to conduct random audits, and the permission to share its findings with other federal investigative agencies, including prosecutors.

*—The Editors*



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to incumbents, and lost. The court ruled that it couldn't be proven that the frank provided undue influence. But as David Keating of the National Taxpayers Union says, "Go to a consultant and ask him if he'd like a list of tens of thousands of names—who are doctors, who are the lawyers—so they could mail letters based on what their hot buttons are." If mass mailings really weren't effective at reaching people and influencing opinion, magazines wouldn't regularly use them to replenish their subscription lists. Mail-order businesses wouldn't be a multimillion dollar industry. And congressmen and senators wouldn't go through the hassle to use them.

So there's really no question that incumbents are using direct mail to gain unfair political advantage. That's why, from now on, the franking privilege should be extended only to replies to queries from constituents or government officials. □

# The Worst City Government

You don't have to be a big city government to waste money like one. Take the three-stoplight metropolis of Hightstown, New Jersey, for instance. In 1987, safety-conscious officials of the 4,200-resident town decided to purchase a singular, state-of-the-art fire truck whose ladder can reach blazes up to 135 feet in the air—one of the tallest firemobiles in the country, and one of the most expensive. True, the modest city didn't have on hand the $536,000 it needed to buy the vehicle—so it floated a bond, raising the cost by tens of thousands of dollars.

It's well worth the price to the members of Hightstown's all-volunteer fire department: They are so proud of the bright red engine that they pilot it through parades all over New Jersey. The high-finished ladder alone has garnered more than 500 trophies in fireman's association competitions. It hasn't, however, made any appearances at towering infernos. There aren't any. The tallest building in Hightstown is 35 feet high. Which is just as well, since a former volunteer admits that most Hightstown firefighters are too scared to climb the ladder.

An hour away in skyscraper-thick New York City, the tallest ladder extends only 107 feet. Ample, says a fire department spokesman, for New York City, which averages about 12 fires an hour—what Hightstown, coincidentally, averages a year.

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It's dangerous enough to be sick these days at Baltimore's public hospitals. But as Stanley C. Mills would tell you, if he had lived to tell you, it's better than being sick at Baltimore City Jail.

In December 1988, Mills, imprisoned for stealing a pair of sweat socks from a downtown store, was diagnosed by prison doctors as suffering from a common cold. In fact, he was suffering—make that dying—of AIDS-related symptoms. In the days before his death, he reportedly experienced massive bleeding and severe head and neck pain. But that didn't earn him the right to see a doctor.

According to a stinging Baltimore grand jury report released last year, several of the jail's officials pleaded that Mills be seen by a doctor, but the jail's medical director declined to see him for six days, saying the case was not a real emergency. On December 12, Mills was rushed to Johns Hopkins Hospital, where he died of meningitis the following afternoon.

At the time of Mills's death, the jail's medical services were provided under a multimillion dollar contract with Prison Health Services Inc. Mills's "attending" physician was PHS's medical director, Dr. Jerry B. Hunt. Last fall's grand jury report confirmed that Hunt failed to care properly for Mills—a misdeed one correctional official attributed to "a paperwork flow problem." Medical records for prisoners were so chaotic, the grand jury complained, that it was impossible to tell how—or if—sick inmates were being treated.

Although internal reports obtained by Baltimore's *Sun* papers reveal that jail employees were complaining about Mills's treatment less than 24 hours after his death, City Jail Commissioner Barbara Bostick remained a staunch defender of Dr. Hunt for months, refusing to remove or transfer the doctor until the grand jury report forced her into action. A subsequent *Sun* investigation suggested the source of Bostick's faith: In June 1989, the jail commissioner bought a $49,000 Mercedes-Benz with Dr. Hunt. A few months later, the two were married.

Esteemed Baltimore Mayor Kurt Schmoke has declined to investigate the cozy relationship between the doctor and his overseer. Instead, he recently sanctioned a $9,000 salary increase for Bostick. "She's worth every bit of it, as far as I'm concerned," he told reporters.

The mayor did, however, give PHS its pink slip, appointing a fresh set of physicians to the beleaguered city jail. The new doctors immediately rushed nine sick prisoners to the hospital—including one who had been languishing in jail with an unhealed gunshot wound in his liver.

—*Katherine Boo*

The *Monthly* depends on its readers to keep track of the breakdown of big-city government. Please send your nominations to:

Worst City Government
The Washington Monthly
1611 Connecticut Ave. NW
Washington, DC 20009



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# TIDBITS & OUTRAGES

**BUT WHAT DOES SHE DO WITH THE CUP AND SAUCER?**
*The Washington Post* reported recently that "according to a Harvard University study of 3,000 planned pregnancies, the more coffee women drink while having unprotected intercourse, the longer it will take them to conceive."

**GREAT FOR THOSE AFTER COURT SNACKS**
The current Williams-Sonoma food catalog features jars of "marionberry jam."

**PROUD MOMENTS IN POLITICS**
Dressing up as a shark, Rep. F. James Sensenbrenner Jr. of Wisconsin received two nights' free lodging at a resort in Florida for winning the "Tacky Tourist" costume award at an electronics convention.

**FIRST PERSON TO FIGURE OUT WHAT SHE'S PROUD OF WINS TWO NIGHTS' FREE LODGING AT A RESORT IN FLORIDA**
Deborah Gore Dean, one of the top figures implicated in the HUD scandals, recently opened a Georgetown antique shop called "The Proud American."

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# How the Cleaver Family Destroyed Our S&Ls

*Low mortgages, high CD rates, and money market funds allowed Americans over 40 to take the rest of us to the cleaners*

**by James Bennet**

After a fair amount of confusion over which vague entity ("deregulation," "campaign finance") deserved the blame for the $500 billion savings and loan crisis, congressional leaders and the press are helpfully trying to focus the nation's resentment on one of two villains: Neil Bush or Texas. Blaming Neil Bush, however, has turned out to be like shooting at a puppy for peeing on the rug. Texans are easier to hate; one can plausibly assume that those rollicking cowboys were out to burn down the house for fun and profit. Besides, if you believe the press, there are now concrete numbers to back up that suspicion.

Parroting figures that have appeared everywhere from regional papers to the network news, Curtis J. Lang wrote recently in *The Village Voice*, "George Bush's home state of Texas will benefit from a massive transfer of wealth from the North to the South in which some $80.2 billion will be infused into the Lone Star State—a *gain* of $4,775 per person—while New Yorkers will *lose* over $17 billion in the process. Californians will lose nearly $11 billion, while New Jersey and Illinois will lose over $8 billion apiece." That logic, echoed by governors of northeastern and midwestern states at a July National Governors Association meeting, has found its way to Congress, where some northern representatives are rethinking the benefits of national union. Rep. Howard Wolpe, chairman of the "Northeast-Midwest Coalition," has introduced legislation that in effect would charge a special tax to those states responsible for "excessive costs" in the bailout. "This legislation is designed to hold those who are most responsible to a measure of equity in the bailout burden," said Wolpe, who hails from Michigan, beneficiary of the Chrysler bailout.

Behind all the self-righteous regional bellyaching is the work of one man, a professor of urban studies and public administration at Cleveland State University named Edward Hill. Hill is clearly enjoying his 15 minutes. "It's been wild to watch it break," he says of the media attention his analysis has been receiving. "Knight-Ridder picked it up, then the people at *Newsweek* called me for their cover story." Later came *The New York Times* and *The Wall Street Journal,* appearing with basically the same story on the same day. "And then it was every place," recalls Hill. "It's been fun," he adds. "I mean, nobody pays attention to me. Not even my *mother* gave me this much attention."

*James Bennet is an editor of* The Washington Monthly. *Research assistance was provided by Kierstan Gordon and Margaret Gray.*



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The major media notwithstanding, not everyone is convinced by Hill's analysis. "It's silly," says R. Dan Brumbaugh, former deputy chief economist at the Federal Home Loan Bank Board. "It's a red herring issue," says Edward Kane, professor of banking and economics at Ohio State University. And according to Bert Ely, whom Hill has called "one of the most accurate observers of the [S&L] industry," "This guy Hill from Cleveland has got it all wrong."

Those judgments are a little harsh. There will undoubtedly be *some* regional redistribution; certainly states like West Virginia—which had neither high-rolling S&Ls nor high-stakes investors—will be net losers once the dust has settled. As we'll see, however, once you poke at them, Hill's concrete numbers start to crumble. Still, the problem with the "regional redistribution" theory is not just that it's inaccurate, but that it distracts attention from the real redistribution that has taken and is taking place: upwards, by age and class. The regional redistribution theory ignores the true culprits behind the slow-motion S&L disaster and the true beneficiaries of the cleanup. Who are those culprits and beneficiaries? Try taking the following simple test:

DID YOU:

➤Take out a mortgage in the fifties, sixties, or seventies?

➤Invest in a money market fund in the seventies or early eighties?

➤Buy a certificate of deposit in the past 10 years?

If you answered "yes" to any of the above, YOU MAY HAVE ALREADY WON SEVERAL THOUSAND DOLLARS! You're at least a cause of the S&L crisis, if not a winner in the Bankers' Bailout Sweepstakes. In fact, aside from the not-insignificant question of intent, the main difference between you and the S&L crooks is that, collectively, you took a lot more money than they did. Oh, also: You've gotten clean away.

It's helpful to think of the S&L bailout—which consists of the government making good on its promise of deposit insurance—as a massive retroactive federal subsidy. Subsidies exist to foster behavior that the market, left to its own devices, would never reward. Sometimes, as with student loans, the government intentionally creates a subsidy to achieve a certain social goal; sometimes, the government just doesn't realize what the heck it's doing. Because of deposit insurance and the jumble of regulations that grew up around it and then were almost haphazardly chopped back, the taxpayers in the past couple of decades wound up sponsoring all sorts of activities that the market would have otherwise frowned upon, to say the least: absurdly low mortgage rates, absurdly dumb construction projects, absurdly high deposit rates. A rogue's gallery of self-dealing insiders raked in billions from this subsidy. Such people should be prosecuted, fined into penury, and forced to serve time or scrub floors. But those actions alone won't clean up the S&L mess, because along the way, the affluent—not just crooks, and not just Texans—also cashed in. The vanguard of the baby boom and its elders (today's Americans over 40) made a fortune thanks to the thrifts' suicide subsidy. It stands to reason that, as the bills come due over the next 30 years, those wealthy people—not all taxpayers—should pay.

## Money rent control

What, you ask, could possibly have been more American than taking out a mortgage during the Wonder Years to buy a home? Nothing, with the possible exception of selling the Brooklyn Bridge to some rubes from Iowa. "People say, 'Who stole the money?' and the answer is me. I had a 6 percent mortgage," says George Benston, professor of finance, accounting, and economics at Emory University's business school. This is one S&L rip-off you're unlikely to learn about on the evening news, where thrift presidents' solid gold bathroom fixtures and antics with prostitutes tend to dominate the story. Explaining the scam requires a brief history lesson.

**By 1984, people in the same age group as Wally and the Beaver—35 to 44—had on average more than three times the net worth of heads of households who were younger than 35.**

In theory, a thrift is a type of matchmaker; it pulls in people who want to save money and puts them together with people who want to borrow money. During their salad days, thrifts would rent money from their depositors at 3 percent, then turn around and lend it to their borrowers at 6 percent. Depending on how thrifty these pass-through agencies were in holding down operating costs, the 3 percent difference was pure profit—a fee for performing the matching service.

The bane of thrifts' existence has always been that the real interests of their two types of clients are fun-



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damentally mismatched. Borrowers want to sit on their loans for a long time, while depositors want to be able to get at their money whenever they need a tooth filled. Here's where the government, out of its deep affection for home ownership, first stepped into the picture. In 1934, the federal government guaranteed deposits at thrifts to prevent runs, in which all a thrift's depositors, upon hearing that a few of their neighbors had defaulted on their mortgages, would mysteriously develop toothaches at the same time. Knowing that the federal government backed their banker, depositors would be more inclined to let their money sit.

Sit and rot, because of other steps the government later took to protect thrifts. In the interest of keeping mortgages cheap, Congress in 1966 voted to hold down to just over 4 percent the interest rates thrifts could pay. This way, S&Ls wouldn't engage in bidding wars to steal each other's depositors, so they could keep making a profit on the fixed-rate mortgages they had locked themselves into 5 or 10 years earlier; in fact, they would have to keep on locking themselves into more low-rate mortgages, since, as part of the deal, Congress refused to let them offer adjustable rate mortgages, which float with interest rates. It was a law passed by people who had never really known inflation.

**Nobody better captured the go-go, intensely cynical exploitation of deposit insurance than did *Money* magazine. Every month, *Money* helpfully listed the highest-paying CDs from around the nation. Safety wasn't an issue. *Money* advised its readers, "Now it pays to park your cash out of state."**

Over the next decade, these people would get to know inflation. Though Congress would bump up the rates thrifts could pay during the seventies, those government-controlled rates fell below the inflation rate at least three times between the late sixties and early eighties. That meant depositors were losing money by trying to save it. Thanks to Uncle Sam, they didn't have a choice. The federal government tried to maintain thrifts' deposit base by preventing small investors from putting their money anywhere else. "They were saving the banks and thrifts by trying to screw the small savers," says Professor Benston. Government savings bonds had been a lousy deal for decades. And in 1970, Congress raised the minimum investment in the more lucrative Treasury bills from $1,000 to $10,000 (at the time, the average thrift account was $3,045). Where else could you put your money? You were even worse off with the commercial banks. By law, they had to pay a quarter-percentage point less than S&Ls. Up until the late seventies, if you were a small saver you could stick your cash in a thrift or bank and lose a little money, or stick it in your mattress and lose a lot.

## Nightmare from Pine Street

One defining characteristic of a capitalist democracy is that a lousy deal for one guy is by definition an incredibly sweet deal for somebody else. In this case, money swiped from depositors in the seventies went into mortgage-holders' pockets. Now, if you'd taken out a mortgage in the fifties and sixties, you were a) at least in your thirties by the 1970s; and b) a homeowner, i.e., probably on your way to being well off. "There's the unconscionable wealth transfer," says Bert Ely. "It's an *intergenerational* transfer. The young got screwed by the old."

Enter the Cleavers. The year: 1959. Ward and June take out a 30-year mortgage at 5.5 percent to buy the new family home at 211 Pine Street in Mayfield, U.S.A. It all seems innocent enough. As they play in the yard and listen to lectures in the living room from their accountant father, the Cleaver sons, Wally and the Beaver, develop the healthy sense of family values and abiding lust for homeownership that characterizes suburban Americans of their generation.

After a brief flirtation with the notion of joining the Peace Corps during his law school days, Wally in 1967 decides to straighten himself out, join a firm, and invest in a home of his own—a nice place, three bedrooms, two baths, a yard: $30,000. By now, mortgage rates have climbed a whole half percentage point, to 6 percent. It takes the Beaver, who spends a couple of years trailing the Grateful Dead around the country in an ultimately futile effort to rebel against his father, a little longer to pull himself together. But by 1976, with interest rates at 8.5 percent, he's ready to make his first major purchase since he sent away for that projector back during his halcyon Mayfield days.

Then inflation hits. By the late seventies, mortgage rates are at 18 percent—*three times* what Wally



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is paying. The Cleavers could cash in on their capital gains right there, refinancing their mortgages at a higher rate in exchange for cash up front from their panicking thrift operators. But why think short-term? After all, the prices of their homes are floating up with inflation (and possibly much faster). Moreover, the Cleaver men probably don't need the money, since chances are inflation is driving up their salaries as well. Cost-of-living adjustments are generally pegged to the Consumer Price Index—the largest chunk of which is determined by housing costs—so most of what the Cleavers are getting to protect them from inflation is in fact pure windfall. Wally, for example, is paying only about $250 per month for his housing—not to lease, but to *own*—while all around him rents are skyrocketing. (To say nothing of mortgages. As Benston says of his kids: "Their mortgage payments were twice mine. Their houses weren't any better—worse, in fact.") Not only that, but our friends are deducting half their mortgage interest from their taxes, so their loans are really costing then only 2.75, 3, and 4.25 percent. All in all, not a bad reward for people who just happened to be in the right demographic group at the right time.

## Money market fun

But the Cleavers have a problem. What are they going to do with all the money they don't have to spend on housing? They sure don't want to join the ranks of suckers that are paying for the Cleaver homes by losing money in the S&Ls. Luckily for them, clever innovators have figured out a way around government regulation of the financial industry: money market funds. They've been around since the early 1970s, but it wasn't until interest rates took off that the money funds—which pool shareholders' cash to make short-term loans at about the prime rate—got popular. Real popular. At the end of 1977, the money markets had $3.9 billion in assets; by 1982, they had $208 billion. At one point in 1980, savers were pumping cash into the money funds at the rate of $3 billion *a week*.

Who were these smart investors? You needed only $1,000 to get into a few of these funds, but you had to have some sophistication to be willing to experiment with this odd, uninsured animal. In these pages in 1981, Gregg Easterbrook used 1978 census data to total up the number of professionals— lawyers, engineers, doctors, etc.—in the U.S. (see "The Meaning of Money Markets," November 1981). He came up with 8 million—the same number of people who had money market accounts that year. Also in 1978, 22 million American homes were backed by conventional mortgages paying 9 percent or less. "Surely many of the 22 million home-free homeowners and 8 million well-paid professionals overlap," he noted. That overlap would make for quite a large number of what Easterbrook called "gold medalists"—Americans who'd figured out how to beat the high cost of living well. But what Easterbrook couldn't know in 1981 was that his money athletes (people like the Cleavers) were in fact competing in a triathalon—and so far they'd finished only two of the events.

## Loan wolves

Their third victory came from bringing the S&L industry to its knees and then charging it for trying to get back on its feet. Money markets had fed thrift operators a healthy dose of the one thing they couldn't stand: competition. The billions pouring into the money funds had to come from somewhere. The S&Ls—then offering about 5.5 percent on passbook savings—were hemorrhaging deposits. So the thrifts ran for help to the usual source. In March 1980, Congress began to phase out the controls on deposit rates that it had imposed 14 years earlier. Savings and loans began offering higher interest rates to lure investors back, with some success. At the end of 1982, for example, S&Ls were allowed to start offering "money market accounts" of their own; in 1983, deposits in those accounts went from zero to $375 billion, while money market assets decreased for the first time.

Why the mad scramble to attract depositors? It's hard to make loans if you don't have any deposit money to loan out. And thrifts were desperate to make new loans, since they were facing a terrifying "interest rate spread." Remember, S&L profits were coming from the loans they had made to the Cleavers at 5.5 to 8.5 percent over the previous decades; now they were paying interest of around 10 percent just to hold onto their depositors. The comfortable old 3 percent profit margin from the salad days had vanished, replaced by a monstrous negative number. Thrift operators found themselves staring into the yawning chasm that separated their depositors' short-term attitude from their borrowers' long-term one.

Thrifts were pulling in a vast amount of new money in an effort to grow out of their troubles by making a whole lot of loans at the new, higher rates. It wasn't working very well. In 1981, 85 percent of S&Ls lost money. "Had interest rates stayed high for another year or two, they would have all gone down the toilet," says Lawrence White, a former Bank Board member, now a professor at New York University. Even before interest rates dropped, many thrifts were doomed (because of assorted accounting tricks, an S&L crippled by this interest shortfall at the be-



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ginning of the decade might not look insolvent until 1985). Benston recently completed a study showing that most of the S&Ls that failed in the Southeast did so not because of fraud, corruption, or mismanagement, but simply because of the interest rate spread.

Without the subsidies of deposit insurance and interest rate controls, thrifts could never have offered long-term, fixed-rate mortgages at such low interest, as Congress demanded (if they had tried, they would have failed much sooner—probably when rates first climbed in the early seventies—and much less expensively). Finally, in 1981, Congress let federally chartered thrifts offer adjustable rate mortgages. But by then, too much damage had been done.

It was the interest rate spread that first panicked the industry and prompted Congress, state legislators, and regulators to liberalize the rules governing thrifts—moves that more often than not exacerbated the problem. Of the $147 billion Bert Ely figures the S&L bailout would cost if the check were written today, he attributes $25 billion to the original cause. Benston puts the cost of these low-yield mortgages to taxpayers at *$51 billion*. That's on top of the subsidy that S&L depositors in the seventies were paying (in the form of interest income forgone) to keep mortgage rates down. All this means that in the coming decades, even as they're trying to pay off their higher loans on their smaller homes, members of the Saturday Night Fever generation will still be paying for their parents' mortgages. And listening to them tell their grandchildren the story of how the nasty, greedy Texans caused the S&L crisis, the worst financial disaster in our nation's history. Don't feel too sorry for these particular people, however. Even if they haven't already benefited from the low-mortgage gravy train, they probably will when their parents head for their final reward. Those whose parents never boarded won't be so lucky.

## Broker poker

Having knocked the supports from under the nation's thrift industry, the triathletes still must profiteer from its attempted salvation before they can collect the gold. The Cleavers are in a good position to do so, since they've got a fair amount of cash to stash someplace: between 1979 and 1981, interest income for individuals and institutions shot up 42 percent, until it accounted for 13 percent of all personal income. Since that average included tens of millions of people who had no interest income at all, chances are that our friends have been doing quite well for themselves.

Frantic S&Ls, which the Cleavers had spurned in the seventies, were looking more attractive every day. In fact, one of the market perversions sponsored by deposit insurance was that the more frantic S&Ls became, the better they looked to investors. Desperate to suck in more deposits to fund new loans, they kept jacking up their rates. If they stayed open an extra six months or six years, what more could they lose?

Once a thrift had exhausted its local deposit base, it had two options for pulling in more money: deposit brokers and direct national solicitation. Deposit brokers worked in one of two ways. In the "institutional" market, brokers would take $100 million from a pension fund, say (or from the Bureau of Indian Affairs or the Pentagon, which were two of the biggest abusers of this system), and break it up into chunks of $100,000 or slightly less to be placed in the highest-paying thrifts around the country. (Many credit unions were also clients of institutional brokers—the one means through which small savers managed to join in the deposit-insurance bonanza.) In the "retail" market, which was dominated by Merrill Lynch, brokers would dump the savings of many depositors into a pile—like a billion dollars—and then invest in monster CDs, all fully insured. Brokers could double an institution's deposits literally overnight.

It was perhaps a first in the history of high-stakes investing that in both these markets no one showed much interest in getting information about the investment itself. In 1984, the president of CDx, a Washington, D.C. institutional broker, told a House subcommittee, "CDx does not represent that it does complete credit analyses on all member banks and thrifts." It's not like they didn't gather *any* information on the institutions, however: an investor "before purchasing a package can request the name(s) of the issuing institution(s)." How could someone possibly put $10 million into a deal that to him was only a name (and a name like "Alamo Savings," at that) and an interest rate? "Investors put a higher value on federal insurance than on credit analysis of smaller institutions," he explained.

There's that subsidy at work again. No way would a thrift have offered such extraordinary rates without deposit insurance; besides, investors simply wouldn't have trusted them. A primary rule of investing—that where there's high yield there's high risk—had been deftly undercut by the federal government. This may not have caused much trouble had the thrifts been tightly supervised to prevent insolvent ones from playing this high stakes game. But no one was minding the store, and Ward, Wally, and the Beaver were all too eager to loot it.

Advertisements blossomed in the pages of *The Wall Street Journal* and *The New York Times*, promoting CDs and other special deposit deals to be had in towns and at rates that the Cleavers had never heard of. Consider this deal offered by a Virginia



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thrift through *The Washington Post*: "IRA, KEOGH WILDCARD . . .You may open an IRA or KEOGH with as little as $100. You may add $100 minimum at any time without extensions of the 5-year maturity. . . . The rate is guaranteed for the term." One-hundred dollar minimum! Hell, the Cleavers are even considering refinancing their beloved mortgages so they can pump as much cash as possible into this deal: It's paying *18.5 percent*. Wildcard, indeed. The money market fund advertised directly beneath is paying only 12.18. Sure, it would probably occur to the Cleavers that the thrift was committing suicide. As one friend of mine who invested in a similar deal in the early eighties recently put it, "We knew they were being fools." But Uncle Sam's standing behind the offer. You'd be a fool not to take it.

Nobody better captured this spirit of the age—the go-go, intensely cynical exploitation of deposit insurance—than *Money* magazine. The eighties were good to *Money*. According to one of its brochures, it enjoyed "circulation growth unmatched by other competitive magazines"—125 percent, to 1.8 million. Moreover, *Money* now boasts newsstand sales more than twice those of *Business Week*, *Forbes*, and *Fortune* combined. And such readers! The Cleaver men almost surely subscribed. After all, 77 percent of the magazine's readers own their primary residence. Compared to the average American, a *Money* reader is "131 percent more likely to have a brokerage account," "79 percent more likely to own securities valued at $10,000+," and (oddly) "55 percent more likely to have recently remodeled a bathroom." All in all, "*Money* readers have an exceptionally solid financial picture." And, if they took *Money*'s advice, they owe at least some of that solidity to the destruction of the nation's thrifts.

## Money for nothing

Every month in its "Investor's Scorecard," *Money* helpfully listed the highest-paying CDs from around the nation, ranked by rate and arranged in groups by maturity. Many of the names, some listed month after month, sound familiar: "Lamar," "Vernon," "Sunbelt." The magazine provided the name, the rate, the state, and the telephone number. Safety wasn't an issue. In February 1986—two years after William Isaac at the FDIC and Ed Gray at the Bank Board had sounded the alarm that many thrifts and banks couldn't intelligently invest the money that was pouring into them—*Money* advised its readers in the brief item that accompanied each scorecard: "Now it pays to park your cash out of state." The trick was to find a state like "Louisiana, where a rate war has been raging since early summer."

Later that spring, *Money* was still bullish on these long-distance investments. The headline of its May scorecard read, "Savings: Shopping among the best little rate houses in Texas." The item started on a somber note, remarking that "The so-called Oil Patch in general and Texas in particular is getting hammered by plunging prices, slumping real estate, and the soft peso." But never fear—even if their economy is in the toilet, the Texans are still out to help the little guy! "Despite it all, however, Texas banks have continued their populist tradition of paying high interest rates to savers. As this table shows, of the 13 institutions listed, five are from the Lone Star state." At this point, another dark cloud briefly drifts across the rosy scenario: "Some experts . . . worry that some of today's high-paying Oil Patch banks could be tomorrow's candidates for insolvency if oil prices keep falling." And now, the $100,000 question: "But even if you assume the worst, should you still consider sending your money on for the extra interest?

**"All of this talk about money being shipped to Texas is wrong, because of the brokered deposits," says Robert E. Litan of the Brookings Institution. "A lot of that money that went to Texas came from New York, and it's going back to New York."**

"The answer is yes if you stick to federally insured accounts up to $100,000, including the interest income you are earning, and brace yourself for certain minor inconveniences." One minor inconvenience for a *Money* reader, one giant disaster for American taxpayers.

In November, *Money* was still whistling the same happy tune. "Savings: Everything is bigger in Texas—except the risk." Although the scorecard lists several thrifts, the purpose of the accompanying item this time is to reassure readers about banks. There's something familiar about the logic. "Of the record 105 banks that have gone under this year, 19 were in Texas. But are savers incurring undue risk?

"The simple answer: no. Despite 394 federally insured bank failures in five years, no savers have lost a penny. . . . The bottom line: go for yield, but deal with federally insured institutions and stay within the


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$100,000 limit." And don't give the fact that the nation's financial system is going to hell in a handbasket a second thought. By the way, *Money* readers, according to the official literature, are "exceptionally acquisitive."

And so it went—until June 1987, when a new phrase abruptly crashed the party: "What the S&L crisis means to you." Crisis? What crisis? "The situation is worse than during the Great Depression." Holy smokes, what about my $87,000 in, um—where's that damn bank statement?!—Irvine, California? Don't worry, says *Money*, you're covered. Still, as you pump *even more* cash into these dying S&Ls, "it's prudent to keep the principal under $95,000, so that the interest is also indisputably covered."

But the months wear on and you can't escape the feeling that the party is winding down, as *Money* clears its throat and edges toward the door, grimly surveying the wreckage and complaining about the mess the hosts brought on themselves. September: "For years now, many desperate Texas thrifts have been offering savers up to a full percentage point more than aggressive banks in other states." Now the days of those "outlandish rates" (don't they mean "populist rates"?) are coming to a close. January 1988: "Savings: What to do if your S&L goes bust." June 1988: "Rating the health of the 62 banks that pay you the most." *Money* is suddenly concerned about the viability of thrifts and banks. But not too concerned: "Federally insured accounts at a bank or thrift with no stars are just as safe as those at an outfit with the top rating of three stars."

By March 1990, *Money* wasn't so upbeat. Despite the new bailout bill, "the rate wars haven't stopped." (Wait a second. I thought rate wars were a *good* thing.) Even a "notorious high-roller" like Gill Savings in Texas—whose outlandish populist rates *Money* dutifully advertised for years—is again offering high rates, though the thrift is under government control. "Don't automatically chase after such lofty yields," warns *Money*, suddenly worried about a point that *Forbes* had made to its readers three years earlier. "You can increase your chances of getting the promised interest rate for the full term of your CD if you stick with the soundest institutions—those listed on page 14 with at least two stars."

*Money* certainly wasn't the only publication promoting unsound thrifts. All you had to do was look in the pages of *The Wall Street Journal* or *The New York Times* to get similar information. Besides, by the mid-eighties our friends were seasoned veterans, savvy enough to find good deals for themselves. All these go-go investment advisors were more like fans screaming from the stands, egging them on as—a little soft in the middle now, a little gray on top—the Cleaver men went for the gold.

By 1984, it had become clear who the winners were. In that year, people in the same age group as Wally and the Beaver—35 to 44—had on average *more than three times* the net worth of heads of households who were younger than 35, according to the Census Bureau. Wally, the Beaver, and company had more than twice as much money in CDs and other interest-earning deposits as those under 35; almost three times as much in investments like money market funds and bonds; almost twice as much in stocks and mutual funds; and almost twice as much in home equity.

Sure, the Cleaver boys' success could in part be attributed to the fact that they had been pursuing careers and saving longer than had younger householders. But those facts alone can't explain all the differences. Consistent gaps that huge didn't exist between any other consecutive age groups. In fact, except for investments in CDs and stocks (where Ward, given his lengthy head start, had left his kids in the dust), Beaver and Wally in 1984 were relatively closer to their dad in the amount of assets they owned than they were to heads of household just a couple of years younger than they were—the ones who'd missed the boat.

Like their dad's, the Cleaver boys' low-rate mortgages were letting them invest surplus cash in S&Ls (which paid out $634 billion in interest in the 1980s)


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and money markets (which paid out roughly $190 billion over the past 15 years). Meanwhile, as long as Mayfield didn't become crack-infested, the Cleavers' homes were probably rising in value. Between 1981 and 1989, in states and cities like Connecticut, Hawaii, Boston, New York City, Philadelphia, San Diego, and elsewhere, home values shot up 50 to 125 percent. Indeed, if Wally had bought his $30,000 house in one of Washington's better neighborhoods, today it could well be worth $400,000— allowing for inflation, that's almost four times its original value.

And what of the would-be homeowners without the good timing to keep up with the Cleavers? Well, after rising steadily from 1940, homeownership rates began to drop in 1980. In *The Politics of Rich and Poor*, Kevin Phillips writes, "In 1980, 23.1 percent of people under 25 owned their own homes. By 1987 that rate was down to 16.1 percent. Among those between 25 and 29 the rate fell from 43.3 percent to 35.9 percent. . . . To more and more citizens, the American dream of homeownership was becoming just that—*a dream*." Those young Americans are too busy covering their elders' mortgages to afford their own. As a child, the Beaver once observed, "Wally, the rules are a lot easier on grownups than they are for little boys." "Well, sure they are," his brother replied. "The grownups are the ones who *make* the rules."

## Aw gee, Wally....

It's the gold medalists like the Cleavers who undermine Edward Hill's (remember him?) regional redistribution theory. To arrive at his numbers, Hill calculated the amount of bailout funds that will flow to a given state and subtracted from that figure the relevant portion of the state's federal tax burden. For 13 states—the "winners"—Hill came up with a positive number. The other 37 states and the District of Columbia are the "losers." Divide by the state's population and you arrive at the bottom line according to Hill: If the check were written today, the bailout would cost each resident of Connecticut (the biggest loser) up to $1,237, while the gain to Texas would work out to $4,775 per person. Those numbers are pretty meaningless, however, because the Cleavers never lived in Texas; they and the other deposit insurance predators lived all around the country. "All of this talk about money being shipped to Texas is wrong, because of the brokered deposits," says Robert E. Litan of the Brookings Institution. "A lot of that money that went to Texas came from New York, and it's going back to New York."

Between 1985 and 1988, deposits in Texas thrifts doubled, from $100 billion to $200 billion. "It defies credulity to believe it was financed by Texas at a time the economy was in a downturn," says Litan. "If you have a weakened state such as Texas in the late eighties," says Al Disposti, the Merrill Lynch managing director and senior trader who pioneered the retail CD market, "you'll find that their attempt to work their way out of the problem was to increase rates and raise money outside the state. . . . They were looking even to Europe." Now, no one knows how much money was sent directly across state lines. Funds mediated by brokers have never accounted for more than 8 percent of all thrift deposits, industry-wide, but according to a study by James Barth, former chief economist at the Bank Board and currently a professor at Auburn University, of the 50 costliest thrift resolutions in 1988, 36 had more than twice the industry average proportional holdings of brokered deposits.

Other evidence indicates that big investors accounted for an even greater share than that of the funds in collapsed S&Ls. According to Tom Schlesinger of the Southern Finance Project, a group that is doing the hard work of sifting though the records of failed thrifts, "In many instances the biggest institutions that have been bailed out have deposits of $80,000 or more accounting for 30, 40, or 50 percent of all deposits." That money could have been brokered or could have come in direct, but one thing's for sure: It didn't come from small savers. It came from investors hunting for high interest—interest that we're now paying off through the bailout. According to Schlesinger, brokered deposits at these thrifts account for 25 to 40 percent of all funds. Some examples:

➤Half of the $2.9 billion in deposits at Charles Keating's Lincoln Savings were funneled through brokers. By his own admission, at least one man—George Benston, whose 6 percent mortgage started the whole S&L crisis—bought a CD direct from a Keating phone bank, thereby earning his gold medal.

➤Of the $4.6 billion in deposits held by Franklin Savings in Ottawa, Kansas, 71 percent were brokered.

➤At Empire Savings and Loan in Mesquite, Texas, brokered deposits accounted for 85 percent of the total.

➤At Sun State Savings and Loan in Phoenix, 44 percent of the $900 million in deposits were in accounts of at least $80,000 but less than $100,000. At Victoria Savings in Victoria, Texas, deposits in this range added up to 65 percent of the total.

Where did this money come from? No one knows for sure. The Resolution Trust Corporation, which mails out the bailout checks, doesn't keep track of



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where the depositors live. The brokers themselves have a somewhat clearer picture. In 1984, FAIC securities, the largest broker of institutional CDs, provided a regional breakdown of its clients to a House subcommittee investigating brokered deposits. According to the chart, Texas and California were "high density" sources of funds. But some more surprising states were also complicit: Kansas, Minnesota, Pennsylvania, Missouri, and, yes, even Michigan, home of Howard Wolpe, the congressman who introduced the Texas-bashing legislation. And according to Al Disposti, "The North-Central region tended to be most active in the CD market—your Michigan, your Wisconsin, Iowa, Chicago." There, investors were generally conservative; the idea of insurance appealed to them. "The second pocket of concentration would be the eastern seaboard," he adds, followed by the states of New England. Texans might have been throwing the money away, but Easterners and Midwesterners were getting rich by handing it to them.

## Settling accounts

And the Texans weren't necessarily throwing the money away in Texas. Some were building condos in New England (and some New England thrifts were financing projects in the Southwest). Charles Keating used deposits from all over the country in his California thrift to build the Phoenician Hotel in Arizona; the $900,000 line of credit approved by Silverado for Neil Bush's partner was intended to finance a venture in Argentina. And, among the uneconomic projects that got financed during this period, one shouldn't overlook the outrageous fees paid to assorted S&L vultures around the country—accountants, lawyers, brokers, congressmen. Indeed, to have qualified as the Mark Spitz of the S&L Olympics, Wally would have to have worked for a firm like Akin Gump or Jones, Day, Reavis & Pogue, which grew fat off S&L fees. With the exception of the congressmen, these professionals are the same people who are now benefitting from the fees generated by the bailout, as the Basses and the Fails and the Perlmans position themselves at the trough for the incredibly sweet deals being offered through the RTC. What do all these people have in common? Money. They sure aren't small savers.

Salomon Brothers, for example, made hundreds of millions by tapping into a market—which Congress created by passing a special tax break for thrifts in 1981—for mortgages that thrift operators facing an interest rate spread were desperate to sell. Consider this memorable scene, recorded by Michael Lewis in *Liar's Poker*: ". . . the thrift was being asked to pay a transaction fee of ten million dollars to Salomon Brothers. 'That doesn't sound like a very good trade for me,'[the thrift president] said. DiNapoli [the trader] was ready for that one. 'It isn't, from an economic point of view,' he said, 'but look at it this way, if you *don't* do it, you're out of a job.' A fellow trader talking to another thrift president on another line overheard DiNapoli and cracked up. It was the funniest thing he had heard all day. He could picture the man on the other end of the phone, just oozing desperation." It wasn't an economically sensible move for the thrift president to make; if it weren't for the abused subsidy of deposit insurance, he'd never have had the opportunity to try. By bailing out the thrifts, the U.S. taxpayer is subsidizing the parasites at Salomon Brothers as well as the corrupt thrift owners in Texas. Taxing all Texans to cover the excesses of these people would be like taxing all New Yorkers to pay Michael Milken's fines.

Robert McIntyre of the Citizens for Tax Justice has worked out a scheme to make some of the unindicted co-conspirators in the S&L crisis cover the price of their party. Between 1978 and 1989, he points out, personal interest income increased by 106 percent, and capital gains income rose 109 percent. Meanwhile, wages grew only 32 percent. This "unearned income" is precisely the kind of money our gold medalists were making by killing off the S&Ls. As a fair remedy to this, McIntyre would apply a 7.5 percent surtax only to those people with total incomes over $100,000 who also have unearned income over $7,500. Combined with a 7.5 percent corporate tax surcharge, this "revenue enhancer" would pull in $23.4 billion in its first year—enough to make a dent in the bailout cost. Joe Kennedy has proposed a variation on McIntyre's plan in the House of Representatives.

There may be another way to identify the gold medalists. Once again, we can turn to *Money* magazine for leadership. It describes one of its target audiences for advertising this way: "The ranks of Americans aged 50 and above have doubled in the past 40 years—from 33 million in 1950 to 63 million today. While these 50-plus consumers represent only 35 percent of total U.S. adults, they control over half of the nation's discretionary income, 77 percent of all household financial assets, and *40 percent of all consumer demand*." That's it—a big chunk of the generation that produced some of the greatest financial competitors in American history! But how to weed out the winners? "Now," continues *Money*, "you can zero-in on the affluent heart of this key consumer target . . . and establish an exclusive franchise with today's highest discretionary income marketplace." Sounds good. Uncle Sam should invest in the mailing list, and start sending out bills. □



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# Mending Broken China

## *Beyond the grim television images, there's hope for reform*

by Jay Mathews

Blinding white television lights probing a dark night can do odd things to popular perceptions. If the cameras are there and the pictures vivid and bloody enough, sideshows may come to seem like historic turning points. If the cameras are not there, continental epochs may pass unnoticed.

No event in any totalitarian nation has ever received the international television coverage given to the Chinese army invasion of central Beijing last summer. The four American networks, particularly CNN, did remarkable work capturing a nighttime drama spreading over several square miles. Those of us who remembered the infrequent and truncated news on Beijing television a decade ago found it dizzying to return to the Chinese capital and watch reports of army shootings and beatings taking place on our hotel steps.

But those same pictures left a deeply pessimistic and flawed image of China's future. The lingering images of Tiananmen Square and the Avenue of Eternal Peace—tracer bullets winking past brick walls, Molotov cocktails exploding against tanks, bleeding bodies on pushcarts—make the situation in China seem much drearier than it is, just as memories of Soviet troops in Budapest 1956 and Prague 1968 discouraged predictions of communism collapsing in Eastern Europe.

Americans enraged by what they saw happen in Beijing have called for some visible expression of American resolve—a law protecting Chinese students, or an end to "Most Favored Nation" status for China. Such actions may make us feel better, but are likely to have little more impact than cutting off a comatose patient's credit cards. The tiny, rotting core of the Chinese leadership that sent troops into the square does not have much time left. It might be better to consider what comes next rather than wallow in nightmares of Tiananmen, a tragedy that confirmed what many urban Chinese already knew about their political system.

The yawning gap between the government's repressive desires and its fading powers is told well in two new books*—one a vibrant compilation of Tiananmen eyewitness accounts in coffee-table photo book form and the other an anecdotal feast from a veteran foreign correspondent. *Children of the Dragon* was compiled by Human Rights in China, an association of Chinese scientists, scholars, and students founded in New York in March 1989. It uses riveting photographs, well-selected remembrances, and documents illustrating Beijing events in 1989 from April 15 through the June 3-4 massacre. *The End of the Line* is the work of Christopher S. Wren, one of *The New York Times*'s best reporters. Wren mines notebooks from his 1973-77 tour in the *Times*'s Moscow bureau and his 1981-84 tour in the Beijing bureau, plus information gathered on other reporting trips, to reveal the bureaucracy, corruption, and disenchantment that plague both communist giants.

Wisely, neither book risks a look very far into the future. But there are intriguing insights in each on the habits of the people who must reorganize the Marxist debris in some acceptable fashion.

The stories told by democracy advocates in *Children of the Dragon* are often moving, heroic, and astonishingly honest, but they leave the impression that the leaders of the next reformist government are unlikely to come from the ranks of those who organized the encampment last summer in front of Beijing's monument to the martyrs of the revolution. Splits in the movement were frequent, and in the view of some of

*Jay Mathews, the Los Angeles bureau chief of* The Washington Post, *was the paper's Beijing bureau chief during the events in China in spring 1989.*

**Children of the Dragon: The Story of Tiananmen Square.* Human Rights in China. *Collier Books, $19.95.*
*The End of the Line.* Christopher S. Wren. *Simon & Schuster, $22.95.*



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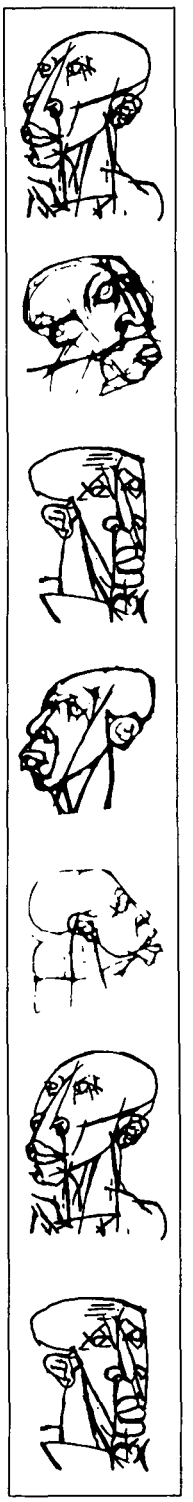
those interviewed, fatal. The caution and indecision of Chinese intellectuals and their weak ties to the rest of the society are difficult to overlook. The young Chinese workers, who suffered by far the most casualties and did the most damage to tanks and troops, grew frustrated with the movement's intellectuals, the *zhishi fenzi* academics, who in Chinese society are even more of a distinct class than in the West. In a scene from *Children of the Dragon,* a young worker stops an army bus with his bicycle cart and asks students to block the other escape route, but they hesitate and the bus drives away. "You college boys are all cowards," he shouts in disgust. "How can you fight for democracy?"

Wren examines the soft spots of reform from an even more sobering angle—the point of view of Soviets and Chinese who embrace the securities of the old system but rarely speak to the Western press. "The Communist state gave Russians and Chinese national dignity and unprecedented services in health, education, and social welfare, though of uneven quality and at a cost hard to sustain," Wren writes. The cynicism that can poison any half-hearted reform surfaces in a Soviet joke: An American dog asked a Russian dog how he liked perestroika. "Now they feed you once a day instead of twice," the Russian dog said, "but the chain is three feet longer and you can bark all you want."

The people best equipped to balance these conflicting pressures already hold government posts in both China and the Soviet Union. Although they bear some of the taint of recent disasters, including Tiananmen, they, unlike many protest leaders, know governing often means choosing from unsavory alternatives.

Deng will be gone soon, and despite the half-hearted reign of terror that followed Tiananmen, the Chinese are not that far behind the Soviets in moving toward a system where popular votes will have some impact on the system. At the end of *Children of the Dragon,* Andrew J. Nathan, an American scholar, offers a vision of what Chinese democracy might become—very messy and constrained, but still stumbling in the direction the rest of the world is travelling: "Its prominent features are likely to include a single dominant party descended from the Communists, a fractionated opposition, a turbulent parliament, noisy elections, local political machines, competition for resources among provinces and regions, angry rhetoric, and frequent strikes and demonstrations."

That will, of course, bring students, intellectuals, and other democracy demonstrators back to Tiananmen by the millions, and leave the new government the same choice the old government had in 1989: blood or some kind of ballot. It will take leaders far more self-confident than the ones we have seen in Beijing lately to risk infecting Chinese life with another army assault on Tiananmen. □

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# Cap the Knave

## *Reagan's longtime secretary of defense is out to rewrite history*

by Lawrence J. Korb

The appointment of Caspar Weinberger, Cap the Knife, as secretary of defense in early 1981 was hailed by both supporters and critics of the incoming Reagan administration. The conventional wisdom was that Weinberger, who had served with apparent distinction in such key jobs as director of the OMB and secretary of HEW in the Nixon-Ford years, was the right choice to manage the defense buildup begun by Carter and certain to be continued by the hard-line Reagan administration. Moreover, unlike some of Reagan's other appointees, Weinberger was believed to be a moderate and a pragmatist rather than a zealot—that is, a man who would work well with other members of the national security team and Congress. Indeed, this reputation was the reason I eagerly accepted Weinberger's offer to become his assistant secretary of defense for manpower, reserve affairs, and logistics, a post I held until September 1985.

When Weinberger left office in November 1987, after serving longer than all but one (Robert McNamara) of his 14 predecessors, his reputation was in tatters. The defense buildup proceeded without any clearly defined sense of strategy or purpose; the Pentagon was racked by some of the most severe procurement scandals in its history; and the defense budget and programs that he bequeathed to his successor, Frank Carlucci, were so far out of balance that his five-year plan had a shortfall of $500 billion. (In his first month in office, Carlucci had to make some $200 billion in reductions.)

Weinberger proved himself so narrow-minded, obdurate, and rigid that he lost the confidence of Congress and ultimately of the president himself. Congress slashed Weinberger's proposed budgets and passed—over his objections, but with the support of the president—the most sweeping reorganization of the Department of Defense in history, the Goldwater-Nichols Act of 1986. President Reagan, Weinberger's long-time mentor, was forced to appoint the Scowcroft Commission to straighten out the mess Weinberger had made of the strategic modernization program and the Packard Commission to straighten out the mess Weinberger had made of the procurement system.

I found Weinberger exceedingly difficult to work for. He seemed to have fixed ideas on every issue, and those who did not accept his interpretation of the facts were branded as disloyal. His staff meetings, like his press conferences and congressional appearances, rarely involved two-way conversation. Weinberger seemed to feel that if he repeated an opinion often enough, repetition alone would make it come true.

Weinberger's memoir* takes Manichaeism and hyperbole to an extreme. Individuals who support his world view are described in such glowing terms that it is almost sickening. His hero, Ronald Reagan, is magnificent, warm, decent, selfless, patient and politically courageous, easy to brief, extraordinarily firm, and possessed of phenomenal memory. Even Ed Meese is described as well-informed and effective in argument. On the other hand, members of Congress or the administration who opposed Weinberger or the president represent narrow parochial interests or special interest groups, and are ultimately disloyal.

Weinberger's Manichaeism and hyperbole also extend to nations, their leaders, and international events. The Soviet Union is and always will be the evil em-

*Lawrence J. Korb is director of the Center for Public Policy Education and a senior fellow for Foreign Policy Studies at the Brookings Institution.*

**Fighting for Peace: Seven Critical Years in the Pentagon.* Caspar Weinberger. *Warner Books, $24.95.*



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pire, whose military power is still increasing despite the collapse of the Warsaw Pact. The Shah of Iran's fall resulted from U.S. harassment and demands that he release his political prisoners. On the other hand, Weinberger holds the Ayatollah responsible for the war with Iraq, even though Iraq attacked first. Moreover, he asserts that Iran was able to hold its own in the war only because Iraq had decided it did not want to commit the substantial resources required for a military victory. The former secretary conveniently forgets that Iraq resorted even to chemical weapons.

Most memoirs are somewhat self-serving, but Weinberger carries his to the extreme. In the opening chapter, he portrays himself as reluctantly taking up Reagan's offer to become secretary of defense, when in fact he campaigned vigorously for a high-level post with the president-elect. Throughout the book, he simply dismisses the problems that plagued his tenure in office and undermined support for national defense.

Weinberger is at his disingenuous best in his Iran-contra discussion. He blames the whole affair on the incompetence of McFarlane, conveniently overlooking the fact that he joined Clark, Meese, and Casey to block Jim Baker's appointment as national security adviser, making McFarlane's appointment possible. More seriously, he ignores the implications of the fact that—unbeknown to the president and the other members of the national security establishment—Weinberger had contemporaneous intelligence reports about the secret November 1985 arms shipment to Iran, as these memoirs reveal.

Why did Weinberger not act upon this knowledge, given his adamant opposition to sending arms to Iran? Why did he tell the Senate Select Committee on Intelligence that he did not learn about the CIA shipment of arms to Iran until early 1986?

The answer to both questions is that Weinberger basically is not the person he appears to be. Had he acted upon his knowledge of the November 1985 shipment, he would have jeopardized his place in the administration or jeopardized the Reagan administration itself. Given his zealous devotion to Reagan and his agenda, he could do neither. Just as he ignored the inconvenient facts that undermined the case for his defense buildup and the weaknesses of his management style in the Pentagon, he ignored the intelligence reports and may even have perjured himself before Congress. Ironically, a book he wrote to vindicate himself confirms our worst fears about him and makes me wonder how so many (including me) could have been so mistaken about his appointment in 1981. □


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# AMERICA'S INC. STAIN

## *How the corporate imperative overwhelmed America's local decency*

by Jonathan Rowe

John O'Hara once wrote a short story, "The Hardware Man," about two merchants in a Pennsylvania town. Tom Esterly was a man of the old order, who sat on the boards of local charities and ran his hardware store the traditional way: practical implements displayed without ado on well-trodden wood floors. Tom Esterly never held sales, never even advertised, except in the high school yearbook.

Lou Mauser, by contrast, was a shrewd and driven man without apparent social ties. Instinctively, he broke the bounds that had kept commerce within a community norm. He ran big display ads in the papers, opened branch stores, and sold at cost during promotional sales. He even hired Tom Esterly's employees out from under him. One can almost imagine the breathless adulation of a *Forbes* profile.

Esterly's store was empty during Mauser's sales. "They're all down at Mauser's," his head clerk would say. Esterly used to refer customers to the other store when he was out of an item. This civility stopped, but otherwise Esterly held to the traditional ways. It was a matter of principle. Eventually, he went out of business.

*Jonathan Rowe is a contributing editor of* The Washington Monthly.

Lou Mauser was an entrepreneur, not a large corporation. But he represented the animus that the corporation set loose upon the nation after the Civil War—because of that war, many would say. It redefined America as a mass market, and Americans as consumers. In the process, it broke down the glue of community and local tradition that Tom Esterly represented.

People sensed these changes and talked about them. But the conservative politics of the country channeled opposition into mainly economic measures, such as railroad regulation and antitrust law. Centralized economic power posed no problem, the assumption went, as long as prices weren't too high. The cultural impact of the corporation—turning independent business people into employees, uprooting enterprise from its community context—went increasingly unnoticed as more and more Americans joined the ranks. (The number of clerks in the nation jumped by 127 percent in the first decade of this century alone.)

But after World War II, with returning vets flocking into the new white collar world, Americans did begin to worry about the kind of people these new functionaries were turning into. Arthur Miller's



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*Death of a Salesman* portrayed a miserable man cut off from his instincts and roots. C. Wright Mills wrote *White Collar,* an impassioned denunciation of the middle-class workplace. *White Collar* in particular drew a great deal of criticism, and at one point Mills wrote to Richard Hofstadter, the historian, for advice on how to respond.

Hofstadter replied with some criticism of his own. It wasn't enough to throw stones at the new corporate bureaucrats, he said. One had to get inside them, see their lives in their own terms. "Why no pity, no warmth?" Hofstadter admonished.

This call for empathy is the professed point of departure for *Making America Corporate,** by Olivier Zunz, who teaches history at the University of Virginia. Historians have tended to dismiss the middle class, Zunz notes, not least during that period in America known as the Gilded Age in which the modern corporation came into being. There are denunciations of the Robber Barons, laments for those beneath. What is missing is a sense of the significance of the ordinary—in this case the men and women who left the Tom Esterly world to become salesmen and clerks and middle managers at corporations like DuPont. These people were doing something new; collectively, they established the social grooves in which America marched for at least another 50 years.

## Clerical errors

Zunz has done much inventive research in corporate archives, pored through correspondence between field agents and headquarters, and examined floor plans and visitor logs in the new office towers that arose around the turn of the century. The result is engaging and suggestive if at times bogged down in detail. Zunz tells, for example, how salesmen for the McCormick farm implement company dealt with anti-corporate radicals on the farm, and what happened when the new office towers brought large numbers of men and women together in the workplace—despite efforts of employers to keep the sexes apart.

Yet having begun with Hofstadter's challenge, Zunz proceeds to forget it. He doesn't get inside these lives, but instead enlists them as evidence for a theory calculated to make waves among historians. Members of the new corporate middle class were not passive minions, he argues. They actually created the new corporations as much as the captains of the industry did. "American corporate capitalism was largely the creation of a new middle class," he writes, in one of many assertions along that line.

The aim seems to be to turn the tables on the populists, to portray the corporation as the result of grass roots participation, the popular will. Contrarian history like this is often a source of new insight; certainly there's nothing wrong with showing the middle class a little respect. But Zunz founders on a desire to be significant. Trying to elevate the white-collar army, he ends up inflating it. Time and again his story tells the opposite of what he intends: how little the actions of individual operatives could alter the overwhelming corporate current in which they found themselves.

Zunz discusses at length, for example, the role of middle managers at the Chicago, Burlington, and Quincy Railroad. They hired clerks and workers, wrote job descriptions, advertised land for sale, reorganized payroll sheets, and the like. Those are all worthy and important functions, well deserving of a gold watch after 50 years. But the list is a little pathetic next to the swollen claims Zunz makes for them: namely, that these were "some of the most significant and challenging tasks of their generation."

The question Zunz doesn't ask is whether anyone could have done these jobs much differently, given the imperative from above. Consider the railroad agents who lied and cheated in order to acquire land. As with the coal agents who swindled illiterates in the Appalachians, their story still inspires outrage after decades of retelling.

Zunz acknowledges the unseemliness of these transactions. But he stresses the managerial "autonomy" they demonstrate. The agents weren't mere corporate foot soldiers, he argues. They took initiative and were "highly sensitive to market circumstances." Hooray for them. The real lesson seems to be the opposite: how deeply the corporation, exempt from the web of local memory and reciprocity, affected the mores of otherwise decent people. Without recognizing this significance, Zunz cites the case of a railroad agent who actually apologized to a Nebraska landowner after buying his property under false pretenses.

Nevertheless, the book is a rich lode of business history, and Zunz is an observant guide when he is not straining for grand formulations. Most of us probably forget, walking by the office towers of Chicago or New York, that a hundred years or so ago a whole culture was virtually invented in these structures. Nobody in America had managed a business on so large a scale. Where would the salesmen sit? The secretaries? Zunz describes a culture coming haltingly to terms with the new mixing of the sexes. Then too, there were the farm implement salesmen. The way they dealt with the farmer radicals was proto-Dukakis: stress the technology, and stay away from politics. (Some awarded small sales agencies to Grange supporters.)

One McCormick agent made an observation about

**Making America Corporate.* Olivier Zunz. *University of Chicago Press, $24.95.*



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the farmers in his district that portended the future of the American auto industry. Writing from Sycamore, Illinois to the main office in 1869, the agent noted that if a farmer had a piano in the house, he was likely to choose a mower "because it is polished, burnished, and painted fancifully."

Still, this was before the mass marketplace had trained Americans to think of themselves as passive consumers. Unawed by the experts in Chicago, the farmers were full of suggestions for McCormick to make his implements better. John Lamuth, a farmer in Algona, Iowa, offered to sell McCormick his four-horse equalizer, "thoroughly tested and works to perfection." Companies maintained voluminous correspondence like this with farmers. (Today, by contrast, most companies return many suggestions unopened, to forestall litigation over royalty claims.)

## Capitalist Shiite

For all Zunz's attempts to portray corporate foot soldiers as builders of the new business culture, the one individual in this book who truly stands out is Henry Ford. Quirky and contentious, given to soy bread fads and homegrown monetary prescriptions, Ford emerges as a prophetic voice against what American capitalism eventually became.

Ford was a fundamentalist on production, a captain of industry who had more in common with Thorstein Veblen than with his industrialist peers. He detested waste, inefficiency, academic degrees, accountants, financiers—credentialism and paper enterprise of all sorts. Once, he stormed through his accountants' offices tossing the ledgers out the window. While General Motors was building a modern office tower that separated management from the factory, Ford stuck his accountants into a wing of his new assembly line.


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The managers elevated to the G. M. tower gradually put marketing ahead of production. Market segmentation, product lines, and annual style changes—all these were born far from the wrenches and welding gear. Ford, meanwhile, stuck with his Model T. He seemed a quaint relic for many years thereafter, and the Model T became a synonym for "behind the times." Then the Volkswagen and the Japanese showed that Ford was onto something America had lost at its peril.

Ford's precepts were a kind of Shiite version of the corporate engine, committed to basics but still having a homogenizing impact upon the nation. One of the few flesh-and-blood sketches in *Making America Corporate* shows how much more this happened at the middle-management level: Elliot Rice was a successful merchant in Western Pennsylvania who moved to Chicago in 1882 to represent DuPont in a new regional office. At first he enjoyed much of the same autonomy he once had running his own business. He contributed free gunpowder for police and fire department picnics and festivities so he could store his powder illegally near his office. His sister ran the Springfield branch and generated good will by helping the families of sick miners.

Then, in 1904, the DuPont cousins consolidated their various interests into the E. I. DuPont de Nemours Powder Company, and headquarters went on a central management kick. Rice watched helplessly while headquarters violated his territorial authority without even telling him. He had to submit to humiliating audits of his petty cash accounts. This former independent businessman had been reduced to a functionary. His letters of complaint fell on deaf ears. After a few years, he quit.

Told in terse detail from the evidence of correspondence between Rice and his home office, the story is suggestive of betrayal and pain. It is a story still heard today in airport lounges and in commuter trains heading out of Grand Central. One wishes Zunz had pursued this dimension further. It reminds us of a cautionary note that is missing in the current (and mainly valid) extolling of entrepreneurs.

After Tom Esterly announced he was going out of business, Lou Mauser paid him a visit. After expressing perfunctory regrets, he offered to buy out Esterly's stock, 20 cents on the dollar. Fixtures and good will included.

Esterly demurred. The good will would have to be separate. "A million dollars cash," he said. "Oh, I know it isn't worth it, Mauser, but I won't sell it to you for any less. In other words it isn't for sale to you. A week from Saturday night at nine o'clock, this store goes out of business forever. But no part of it belongs to you." □



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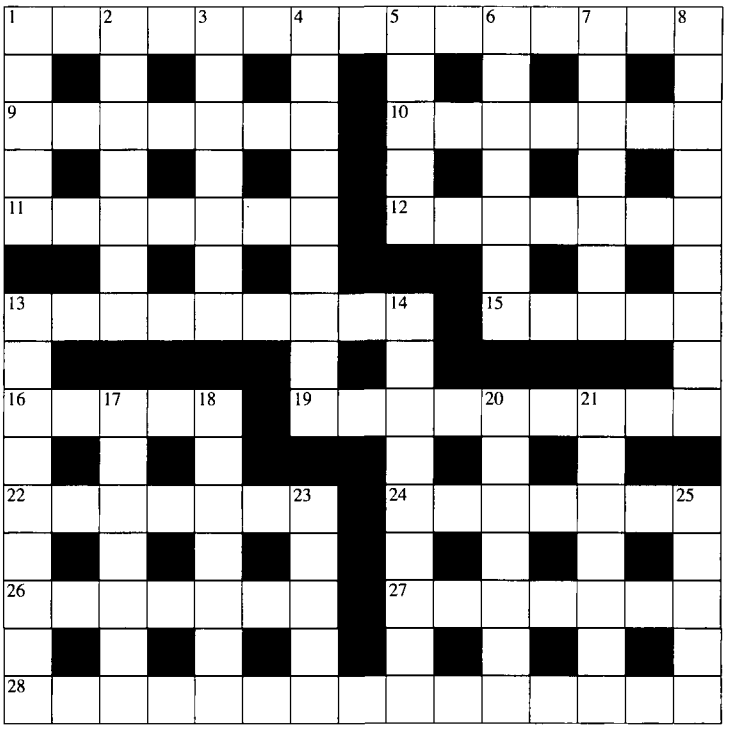
# POLITICAL PUZZLE

## by John Barclay

The numbers indicate the number of letters and words, e.g. (2,3) means a two-letter word followed by a three-letter word. Groups of letters, e.g. USA, are treated as one word.



### ACROSS

1. National symbol of alarm scheme kind displayed. (6,3,6)
9. Place of repose for I.O.U. back around victory. (4,3)
10. Racine's plays feature poison. (7)
11. Bed must be made up for least able. (7)
12. Casual footwear formed on chic last is a disgrace. (7)
13. Smart dons prepared for bad weather. (9)
15. On in Michigan? Just the opposite for boundary. (5)
16. Gardner, 49, is of some use. (5)
19. Display of poise and frog is transformed. (4,5)
22. Removes transplanted seedlet. (7)
24. No let-up is planned for rich. (7)
26. Let ten tour aimlessly. (4,3)
27. Clumsy toadies and certain salts. (7)
28. Celebrities join bad priests to make national symbol. (5,3,7)

### DOWN

1. Lingering death in disfavor. (5)
2. Serviceman trained animal to follow military leader. (7)
3. Every man becomes less eager minding store openings for 1 and 28 Across. (7)
4. Idiots and new primary problems. (9)
5. Jimmy and John are academic types. (5)
6. Stalin overthrown before Lenin put in. (7)
7. Randomly doing a kilometer around the realm. (7)
8. English mixed salad, etc., at higher level. (9)
13. Threw darts around and headed South for 1 and 28 Across. (9)
14. Damn lions playing instruments. (9)
17. City set up twice at North Los Angeles. (7)
18. Oils, but in a way not oils. (7)
20. First settler to go lame. (7)
21. Certain flights on top in certain directions. (3,4)
23. Luxurious fabric in pulsating design. (5)
25. Street set brought up for trials. (5)

*Answers to last month's puzzle:*

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# POLITICAL BOOKNOTES

*Public affairs books scheduled to be published this month.*

**On the Law of Nations.** Daniel Patrick Moynihan. *Harvard University Press, $22.50.* The swift and merciful end of the Cold War has left many policymakers and intellectuals asking, like Robert Redford's dumbfounded, victorious candidate, "What the hell do we do now?" Understandably, most find themselves discussing alterations to existing structures—take in NATO a few inches here, let out the Conference on Security and Cooperation in Europe a bit on the inseam. Leave it to the senior senator from New York, whose career has been one long and exhilarating assault on conventional wisdom, to bring order to the chaos with an old but still provocative idea: let there be law.

In this richly textured, idiosyncratically written (no ghostwriters here), but compelling book, Senator Moynihan argues that international law, often regarded as our century's answer to alchemy, is in fact a powerful tool for stability and justice, notwithstanding the many perversions and humiliations it has suffered over the years. Paraphrasing Chesterton, Moynihan might say, international law has never really failed, because it's never really been tried. In his rococo early chapters, he recounts America's sometime commitment to international law through Wilson, FDR, and the early days of the Cold War. Later in the book, he traces some of our more notable foreign policy debacles, specifically the hostage crisis and Iran-contra, to our unwillingness to take advantage of, or heed, the dictates of international law.

The bedrock principle of international law is that any government that controls territory and abides by its international obligations qualifies as sovereign and is immune to intervention in its internal affairs. In this light, the recent invasion of Panama, the Reagan Doctrine's last hurrah, was in violation of international law, odious though Noriega was. "The United States," Moynihan writes, "has every right to try to bring about regimes it approves, especially in places we consider important. But there are rules."

Why abide by these hamstringing rules? Because, proponents of international law argue, it is in our long-term interest for there to be some kind of international order based on respect for borders and even some basic human rights. For example, had we played by the rules, Moynihan argues, and held off on the Iranian-hostage rescue mission until the International Court of Justice ruled in our favor on the hostage taking, which it did a month later, we would have been entitled to go to war with Iran. "International law is not a scheme for surrender," he writes, but "a framework for deciding how and when to use force."

Classical liberalism, the revolutionary ideology of the 18th century, has triumphed and is now firmly embedded in the economic and political logic of the world (thanks, in some measure, to the often-ridiculed efforts of Woodrow Wilson, the hero of Moynihan's argument). This in turn makes it meaningful to talk about transnational law in a way not seen since the Christian empires of the premodern world. At the same time, the end of the Cold War is cause for some jitters too. Nervous though the world has been for the past 45 years, it has been stable. While conflicts in Asia, the Middle East, and elsewhere were agonizing for those who endured them, they were held in check by the superpowers, who didn't let them threaten the ruin of civilization. John Lewis Gaddis has ruefully suggested that future generations may refer to the past 45 years not as "The Cold War" but "The Long Peace." But perhaps law can take the place of one of the Cold War's more reassuring aspects, what Gaddis calls "the paradox of order in the absence of hierarchy."

What would a renewed American commitment to international law


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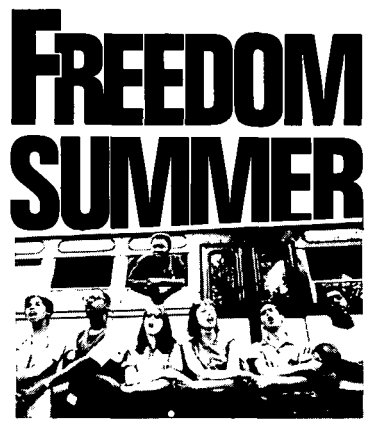


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mean in practice? Moynihan is a little short on specifics, but for starters, it would mean considering international law a prime factor in foreign policy decisions and accepting the jurisdiction of the International Court of Justice and other institutions—something we simply refused to do when the court declared our mining of Nicaragua's harbors illegal. Practicing what he preaches, Moynihan introduced a resolution in the Senate last April urging the U.S. government to seek an opinion from the International Court of Justice on Lithuania's right to self-determination.

But hold on a second. Is this the same Daniel Patrick Moynihan who spent his memorable tenure as United Nations ambassador denouncing the institution as a pack of scoundrels? You bet. The UN, he maintains, was in violation of international law then, most of its members pledging their troth, out of convenience, ideology, or both, to a totalitarian empire that had little use for law, international or otherwise. The nadir of UN lawlessness, in Moynihan's view, was its 1975 resolution equating Zionism with racism.

A recurring theme in the democratic revolutions of 1989 was an urgent call for the rule of law. Never having attended Ivy League law schools, the leaders of the new democracies believe that laws democratically enacted, rooted in principle, and faithfully executed can indeed make their societies, if not perfect, at least safer—you guessed it—for democracy.

Moynihan concludes, "These most extraordinary events of the year—of the century—argue that the United States, which inspired so many of them, might well pause to consider that this inspiration was authentic, a legacy not to be frittered away by forgetfulness of our own past, or by frustration with the behavior of others." Amen.

—*Yehudah Mirsky*

**Educated in Romance: Women, Achievement, and College Culture.** Dorothy C. Holland, Margaret A. Eisenhart. *University of Chicago Press, $19.95.* Jane Doe is a bright high school senior with a record of strong academic performance. She plans to go to college, and she has a specific career objective: to be an environmental biologist. Four years later, she graduates from college with a degree in biology, marries a fellow biology student, and within a year is working as a part-time secretary. What happened to Jane?

Holland and Eisenhart's "anthropological and sociological analyses" of college women in the eighties provide at least a part of the answer: life at college centers on gender relations among peers. Gender relations are


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largely determined by what the authors deem the "cultural model of romance." In this culture, attractive women are treated well by men, and this good treatment is the measure of status and esteem. Although the corollary is also true—that is, attractive men achieve some status through receiving good treatment from women—men also achieve status and prestige from success in sports, school politics, and other arenas. But "women's prestige and correlated attractiveness come *only* from the attention they receive from men." Thus, the "cultural model of romantic relationships set[s] men up as the judges of women's claims to prestige in the peer system." Since attractiveness to men provides the rewards, being attractive, rather than having good grades or, ultimately, a career, becomes first priority for too many college women.

This conclusion is neither startling nor novel. Nonetheless, the study provides scientific evidence (limited though it is—focusing on 23 women in two colleges, both in the South) of the underlying phenomenon: the double standard is alive and well and flourishing on college campuses. Men are judged by one set of values, women by another. Let us not take false comfort from the large numbers of young women enrolling in college (6.9 million in 1988, or 54 percent of all students). An inordinately large percentage of these (70 percent in Holland and Eisenhart's study) who began college with varied interests and ambitions will be forced to neglect their academic potential and abandon their career goals, caught in the snares of the "culture of romance" of their peers.

And those who escape? Certainly, as the authors document, there are women who avoid the worst of the psychological and emotional traps set by the culture of romance, do well in college, and begin professional careers. But for some women their initial escape is illusory. There are successful, powerful, wealthy career women who feel worthless because they lack a man to "treat them well." On others the lingering effects of the culture of romance are more subtle. For example, women are much more likely than men to leave their jobs so that their spouses can pursue the best career path. The double standard is still influencing these women's lives; when push comes to shove, a man's career is usually more important than a woman's.

And then there's the whole issue of parenting, the "Mommy-track," the trials a woman faces in balancing family and career. Of course, it would be much easier on women if the responsibility for parenting were shared equally by mother and father. So why do women accept more than their share of responsibility—and guilt—for child rearing? Why are women, but not men, being proselytized to reap the rewards of parenting rather than those of a career? Because of a culture that esteems one set of virtues in women, another in men. Woe to those who possess the "wrong" set.

—*Marian K. Riedy*

**Pizza in Pushkin's Square.** Victor Ripp. *Simon and Schuster, $18.95.* This short, wry book is delightfully written and revealing about both the United States and the Soviet Union. The author is a professor of Russian literature whose parents came from Russia and who has returned there himself many times before and during the Gorbachev era. For 200 years, he


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says, Russians have been far more interested in figuring out the American character than Americans have been in understanding Russians. "Though most Russians rarely see an American, and never talk to one, they have managed to devise a balance sheet of our flaws and virtues. . . . It's an odd perspective, and like creatures in fairy tales we seem distanced and vivid at the same time."

One strong theme in Russia's contradictory view of America is that the two national cultures really have a tremendous amount in common. A team of writers, reporting on a coast-to-coast drive across the United States, excitedly told their readers about a man they had met in Dearborn, Michigan: "His eyes are set close together, the prickly eyes of a peasant. As a matter of fact, he looks very much like a sharp-nosed Russian peasant, a self-made inventor who suddenly shaved off his beard and put on an English suit of clothes." As Ripp points out, the subject of this description was none other than the original Henry Ford—"American to the bone, almost primordially native in occupation and in appearance."

America's failure to reciprocate the respect, attention, and sense of comradeship is the Russians' fundamental grievance. Ripp says that he has been continually lectured about America's refusal to appreciate Soviet sacrifices in World War II. "The truth of these assertions aside—and most rang more or less true—the querulous tone was remarkable. It suggested a boxer who won't stop throwing punches long after the final bell has sounded, the fans departed, and the stadium locked shut." Russia has made special room in its heart for the few Americans who have paid the country proper respect—John Reed, Van Cliburn, the inescapable Armand Hammer.

Similar complaints—"the Americans don't care as much about us as we do about them"—are usually heard in the Philippines, Mexico, or other countries that see themselves as distinctly weaker than the U.S. and therefore the victims of its uninformed whims. Ripp says that to some extent Russia is the same: "Always lagging in material goods, almost always a bit backward culturally, Russia has a longstanding inferiority complex." But he says that most Russians also feel that their values and sensitivities are deeper, more refined, more serious than their cowboy image of American life. They are especially annoyed when America, or the real Americans they now encounter in greater numbers, fail to conform to Soviet expectations. James Fenimore Cooper is revered in Russia for expressing "authentic" American values. A *Pravda* correspondent visited Cooper's grave in Cooperstown and was heartbroken to see Americans flooding into the Baseball Hall of Fame, totally ignoring his beloved Cooper.

Ripp says that under Gorbachev Russians at last are able to admit something they've obviously believed for many years: that Americans can somehow *do* things that are simply beyond Russia's organizational grasp. The film director Sergei Eisenstein was boggled by the skyscrapers of New York. Anastas Mikoyan once filed a detailed, envy-filled report on American burger-frying techniques. Even now, Ripp says, Russians see American quality and American technology as symbols of the best that can be done. Without driving the point into the ground, he suggests that this attitude may reveal how backward Russia really is.

*—James Fallows*


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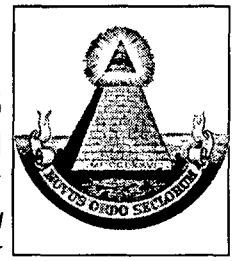


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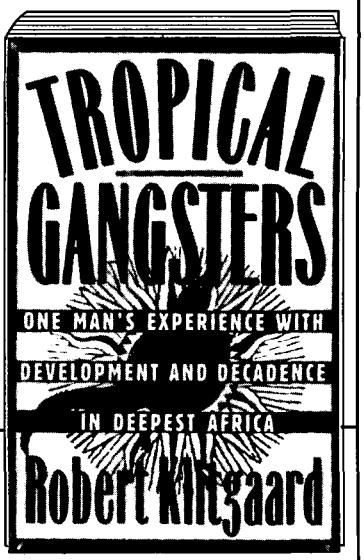

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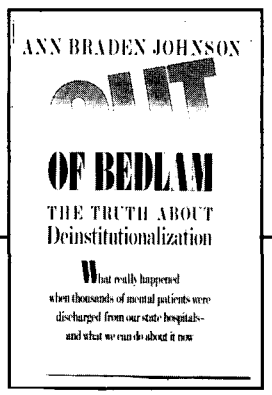


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